

JPRS-EER-89-041

14 APRIL 1989



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# ***JPRS Report***

## **East Europe**

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# East Europe

JPRS-EER-89-041

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## INTRABLOC

### Life at Soviet Garrison Described

23000108 Hamburg DIE ZEIT (ZEITMAGAZIN supplement) in German 3 Feb 89 pp 22-27, 30

[Article by Viekko I. Pajunen: "Drill under Hammer and Sickle"]

[Text] The Soviet movie theater behind the Karlshorst S-train station is considered a private tip. Here are shown movies in the spirit of glasnost which one does not normally get to see in the GDR. Busloads of Soviet soldiers come here, now and then also uniformed soldiers of the National People's Army and the People's Police. "We have good relations with the Army, the People's Police and in particular with the workers of the GDR," explains Lieutenant Colonel Pyatibrat. Joint festivals and sports competitions are arranged.

Karlshorst, in the east of the GDR capital, is an extraordinary place for Berlin: Here, Soviets in uniform are a common daily occurrence. In the center of the city one does not usually see them. Since May 1945, when Marshal Georgi [sic] Zhukov accepted here the capitulation of the German Army, Karlshorst has been the "Russian" quarter of East Berlin. At that time, the Soviets took possession of a large part of this suburb of villas which had been spared from war damage. When the garrison was established right after the end of World War II, its tasks were above all protection of the garrison headquarters and organizing the occupation of Berlin. Today a motorized unit is stationed at Karlshorst, a "Garde-Mot Rifle Brigade." It is part of the "Gruppa Sovetskikh Voysk v Germanii" ("Group of Soviet Forces Germany," GSTD), the largest army of 420,000 men which any one state maintains in another country.

The commander of the brigade, Lieutenant Colonel Pyotr Pyatibrat, Ukrainian by birth, is a 38-year-old graduate of the famous Moscow Frunze Military Academy—a rising star in the Soviet military apparatus. With equal rights in the management of the garrison is Lieutenant Colonel Nikolay Gunya, political officer and graduate of the Moscow Lenin Military Academy. During the visit to the garrison, these two were our constant escorts. After overcoming their initial stiffness, they turned out to be overwhelmingly friendly hosts in the best Russian tradition.

The garrison looks well kept, but the atmosphere appears archaic. Military traditions and customs, long since forgotten in Western armies, are still cherished in the Soviet army. As soon as an officer appears for a salute, the draftees and other subordinates change from normal stride to smart goose steps. The officers maintain a fatherly-paternalistic attitude toward simple soldiers.

The troops live in the large communal billets of the barracks. In every room stand 50 to 60 beds with simple wooden wardrobes in between. Wake-up call is at 6 a.m.

Soon after, everybody streams into the courtyard which is still almost dark for morning gymnastics. Breakfast consists of tea, bread, and cooked macaroni. Every soldier is supplied daily with a ration of 4,000 calories. Mushrooms are grown in their own greenhouse—a favorite food of Russians; 25 kilograms are harvested every other day. "Some garrisons also have their own pigpen," says the supply officer. A specialty is the tobacco ration distributed among the soldiers: Every smoker receives 18 packs of cigarettes per month. Non-smokers get an extra ration of sugar.

After breakfast, duty begins. And it is not very different from that in armies of other countries: Soviet soldiers practice hand-to-hand fighting, are chased over the obstacle course, march, sweat, and curse. In addition to military training, being of 27 nationalities, they occasionally have decisions of the Supreme Soviet or problems of environmental protection explained to them.

After duty hours the soldiers can visit the tearoom. Baked goods, milk and tea are consumed in quantity, although the pay is low. A draftee who has just started his service and pays 14 marks for a box of chocolates, spends more than half of his monthly pay. The highest pay, about 85 Marks, is earned by fully trained tank drivers whose tour of duty is almost over. The possibilities of spending higher pay are limited, anyway. There is no going off base to amuse oneself in the city of an evening. Also, one does not see Soviets in the Karlshorst bars.

Only once during the two-year tour of duty are the soldiers allowed to go home. "Furlough must be earned," says the commander. Maxim Krivonos, a draftee, knows what that means. "In March I was home for 10 days in the southern Urals," he relates in the tearoom of the Karlshorst garrison. The highlight was seeing his girlfriend again—for the first time in a year and a half.

The permanent staff, on the other hand, lives quite comfortably at Karlshorst. The officers' club is imposing, grocery stores—at least by Soviet standards—are well stocked, there is no waiting line in the liquor store, the children have their own schools, and social life is active. In the evening, one can watch First Program [channel] Moscow television, either in the apartment or in the communal rooms of the garrison, via a Soviet broadcasting station in the GDR.

In the theater of the garrison, concerts are often performed which the families of the personnel like to attend. In the evening of our visit, one group of young soldiers enjoys particular attention. They enter the stage in fashionable safari suits—the summer uniform of Soviet infantry, which is familiar from pictures from Afghanistan. The group plays melancholy rock melodies, the texts deal with homesickness, wounded comrades and other somber experiences of Soviet soldiers in the Afghan war. The public listens, perplexed.



During the conversation in the tearoom, the Soviet soldiers do not complain about their isolated life in Berlin, at least not to a foreign journalist. Maxim

Krivosos, who began his service 2 years ago at the age of 19, says thoughtfully: "I could have been sent to Afghanistan instead."

## CZECHOSLOVAKIA

### Havel's Sentencing, 'Show Trials' Detailed

23000111 Frankfurt/Main FRANKFURTER

ALLGEMEINE in German 22 Feb 89 p 7

[Article by Jacqueline Henard: "The Beating Heart of the Party Is Not Being Tried in Prague"]

[Text] The "voice of the day" is clear. The worker, whom the Czechoslovakian party newspaper gives leave to speak, does not want "terrorism," but peace and order with the help of the strictest laws possible. This also makes evident the official motto for this Tuesday on which various Prague district courts conduct show trials against 53 disturbers of party order. After the demonstrations in January, the cases were assigned to them by the State Attorney's Office, together with the concluded "investigations."

The only thing that speaks well for the choice of trial locations is that they are small and widely dispersed: that way, there will be fewer people in the streets, fewer interested persons fit into the courtroom. One can try unknown "criminals" like the female factory worker, who on 19 January called two policemen—engaged in savage beating—"sons of whores," without the slightest public attention.

In the 6th Prague city district, therefore, no Western diplomat or prominent dissident stands at the door in order to give moral support to the eight defendants. In front of the courtroom for cases "IP 14/89" to "21/89," at first only three adolescents of the "order unit" slouch about, one of the many subdivisions of the Czechoslovakian police. They are to testify against an 18-year-old art student, an "enemy-of-the-state agitator" whom they—probably—have never even seen before. But that doesn't matter, because there is little likelihood that they appear under their real names; according to a bad old practice, many "witnesses" for the prosecution supposedly have been given a suitable "identity." Later two older policemen join them who have introduced another young man to the "beating heart of the Party"—a Prague euphemism for the rubber truncheon.

The sentences in the 6th district, laid down on the basis of retroactively tightened security provisions, consist of money fines and prison terms which can make a young life seem hopeless. Seven or 20 months of probation for "political unreliability" mean an entry in the "personal register of convictions" and thus exclusion from university studies. It also prevents the person convicted from finding a job to his liking.

In Czechoslovakia today, an example is set on a small scale, because it is impossible on a large scale. In Jagellonska street, where Vaclav Havel is being tried, two hundred, maybe three hundred people are gathered before 8 am. There are 16 seats in the courtroom. One seat is reserved for the Soviet news agency Tass, one for

the U.S. [news agency] AP. Western diplomats agreed to participate as observers in accordance with the most recent CSCE documents. They are turned away by the police, as is the delegate of the International Federation of Human Rights, a Paris prosecutor.

The defendant, Vaclav Havel, is greeted by his friends with applause and shouts of freedom when he is led through the court corridor. Seven witnesses testify during the morning, the indictment looks weak, the judge pursues his own questions. At the end it is only certain that Havel wanted to deposit flowers at the Wenceslav memorial. But how criminal is that? The witness from the state police stammers around for a long time. He had arrested Havel when he "had the impression that Havel did not want to leave Wenceslav Square"—but he doesn't even remember whether at that point in time the order to leave the square had even been issued. Another "witness" confirms that he had already seen the "notorious disturber of the peace" at the demonstration on 28 October; Havel laughs, and the courtroom with him: On October 28, he was sitting in prison.

In the afternoon, Havel's friends must leave the court building. In the street, intellectual Ladislav Lis says what more and more people in Prague are thinking: It is a shame that such trials even take place. And it is an anachronism that in a highly developed socialist society it is forbidden to fight for ideals which socialists championed a hundred years ago: freedom of assembly, freedom of speech, a free press, and the right to have independent candidates in elections. When Lis looks away from the rolling camera, he asks the crowd: "I hope you are of my opinion?" There is applause among the crowd.

Writer Vaclav Havel is the symbolic figure of these show trials, all of which deal with the demonstrations in memory of Jan Palach's self-immolation 20 years ago. For the regime, Havel is the representative of all rabble rousers. On the other side are ever larger segments of society who take the Havel "case" as the occasion to finally protest publicly the unbearable treatment of dissidents. It is a cross-section of Czechoslovakian society rising up against Stalinist customs.

When he had received the first letter, Prague party secretary Stepan arranged a talk with 30 artists. Vaclav Havel, whom Stepan had only met in December at an official occasion, was already in prison at that time. At the meeting an actress yelled at Stepan: "Don't you understand, it can't go on like this!" The deputy president of the Theater Association threatened in the same manner, but with the authority of a party functionary, that he would resign from office if a dialogue did not finally come about.

On the eve of the trials Stepan, a 40-year-old man and a new face in the party, could be seen on television for a long time. He spoke about the 41st anniversary of victorious communism; he said nothing about the trials,

demonstrations. The embarrassment and disintegration of the party meanwhile causes deep concern among thoughtful intellectuals. For these "apparatuses," the various police authorities, are all as strong as ever and without unifying leadership. "The rubber truncheons," says one, "are not the hardest weapons they have."

**Atmosphere of Dissident Trials Noted**  
23000113 Frankfurt/Main FRANKFURTER  
ALLGEMEINE in German 25 Feb 89 p 3

[Article by Jacqueline Hennard: "Prague Regime About To Face the Rage of the Masses"]

[Text] Prague, Feb. 24—Public sound systems have always been a measure of the strength of socialism. Today busy passersby are blanketed with department store music from loudspeakers on every lamp post of downtown Prague.

This sound system was put in place so the communist party chief could overwhelm a rapt communist audience with an address commemorating the 41st anniversary of victorious February, the month of the communist take over. But Milos Jakes never got a chance to speak. Twice, the celebration was put off. The first time it was moved ahead of schedule from a Saturday to a workday, so "masses" of working people could be hauled in for television coverage of the event. In addition, newspapers announced that the time for the beginning of speeches would be moved from 2 o'clock to 3 o'clock in the afternoon—the time when office workers leave for home and crowd the city. Last year the entire scenario threatened to unravel when too many hired fans began to leave the scene as soon as Jakes started to speak. This time, people stayed put for just about 20 minutes—barely long enough to stand still for the hastily intoned "International." (Listeners are required to stand at attention for the international workers' anthem and the national anthem.) Keynote speaker Jakes was getting ready for his appearance at the lectern when opening speaker Stepan, party secretary of the city of Prague, started to denounce antisocialist forces—a move which irritated activists to the point of leaving the rally. In the immediate vicinity of the speakers' rostrum one could hear traces of polite applause, but further away even uniformed worker militia complained about the speaker's "incredible idiocy." Workers turned their backs to the rostrum and headed for buses and subways.

How much longer can the party leadership afford to ignore the fact that a largely lethargic population has come to identify more and more with an anticommunist movement—not because of external factors such as "hostile foreign centers," but because of system-related, domestic factors? The government tries with all its might to project its interpretation of reality as the truth and to force it on the population. The widespread resistance that has grown out of a feeling of general disgust has become a nightmare for the regime. To stop it, "ring-leaders" must be found and exposed. That is the reason

behind this week's show trials that hold everybody's attention. Vaclav Havel has been declared public enemy number one. The central press organ "Rude Pravo" ran a half-page long article to denounce Havel, but he did not seem to fit the desired image. He was written up as the son of rich Nazis whose activities are funded from abroad. Despite its efforts to project objectivity, the party organ operated at an intellectual level that—maybe not altogether unintentionally—discredited its validity.

But no matter how strong the pressure, resistance has its voice. For example, the court has on occasion intelligently blocked certain charges at the trials. It has accepted political charges while at the same time undermining them. In the Havel trial, the judge barred additional witnesses once it had become clear during questioning that the charges did not hold water. Under this ruling, further witnesses were not allowed in the court of appeals. When the judge gave her reasons for the sentence she also paved the road for its revision. She said—in the best tradition of soldier Schwejik—that although she has no proof, she thinks Havel is guilty.

Domestic and foreign observers alike agreed that in the second trial against seven less well-known regime opponents the judge did not even bother to keep the appearance of a proper trial. The accused were forbidden to talk, and the number of witnesses could be increased at will. Frau Otakar Veverkas was ordered out of the room because "she had a funny look on her face." The court accepted the penalties demanded by the prosecution: Fines and several months in prison with suspension for Jana Sternova, Stanislav Penc, David Nemec, Sascha Vondra, and Petr Placak; nine months in prison for 22-year-old Jana Petrova and a year for 32-year-old Veverka, the co-founder of the pacifist "John Lennon Club."

Immediately after the verdict, the prosecutor filed for an appeal even though all his demands had been met. Such a gesture would be judged stupid in any free country, but here it designates—not unlike the cryptic verdict in the Havel case—an unmistakable act of defiance committed by institutional actors in a pitiful comedy of power politics.

Another scenario: Minister President Adamec is holding a press conference. Officially approved questions deal with economic reforms and travels to the Soviet Union and Great Britain. Additional questions are invited and they produce the following answers. Naturally, Czechoslovakia is committed to respecting human rights as outlined in Vienna. Until now only one single country (the Netherlands) has asked about the Havel trial. The question is under consideration. Unfortunately, the government knows little more about the trials than what the papers report because they are the responsibility of an independent justice system. And it is this sovereign court system that—quite independently, of course—has decided to hold all show trials on the same day.

Spokespersons for the government are not in an enviable position. They are sent into the ring by a mindless leadership. Diplomats in Vienna report that the Foreign Ministry warned the Ministry of the Interior not to use brutality against demonstrators—especially not during the last days of the human rights conference in Vienna—because it would cast a bad light on Czechoslovakia and would be remembered for a long time. The warning, just like the familiar petitions signed by citizens and submitted to the government, made no impact. Also ignored were warnings from the factories. When worker militia from the machine building factory CKD were called on to battle demonstrators in the Wenzelplatz, they threw their uniforms and party books into a heap in front of the factory doors and set fire to it—at least so the story goes in Prague.

Like in most places, the police in Prague is not made up of dehumanized brutes trained to beat up citizens. The instruments of power—the army, the secret police, and the militia—comprise several hundreds of thousands of people who threaten to fragment into distinct entities occupying opposite ends of the spectrum. Witnessing the hatred with which a policeman trampled five carnations into the pavement until only ugly smudges remained, explains why Havel lost his freedom over a handful of flowers.

The day following the verdicts, Prague was quiet. However, over the past six months resistance groups have met on Wenzelsplatz on the last Saturday of every month—in the same manner as mothers have met in Argentina. This month's Saturday coincides with the anniversary of the communist take over: 25 February 1948.

#### **Leader of Hungarian Minority Association Interviewed**

24000107 Prague RUDE PRAVO in Czech  
4 Mar 89 p 5

[Interview with Zoltan Sido, chairman of the Central Committee of the Cultural Association of Hungarian Workers in Czechoslovakia, by Frantisek Cinger: "Live Tradition and the Present"; first paragraph is RUDE PRAVO introduction; date and place not given]

[Text] The organization is called Csemadok and for those who are not Hungarian or do not even have an inkling of the meaning of this title, it is an acronym for the Cultural Association of Hungarian Workers in Czechoslovakia. We spoke about its activities with the chairman of its central committee, Comrade Zoltan Sido.

[RUDE PRAVO] Not much is known about the life of national minorities in our country. A similar situation exists with respect to the organizations of these minorities. I know that on 4 March you will be celebrating the 40th anniversary of yours. What kind of traditions were passed on to you by your predecessors?

[Sido] It is proper to say that our predecessor was the Association of Hungarian Students which was established in Prague in 1922. It was then called the Association of Saint George, after the statue at Prague Castle. Its members joined in actions undertaken by the left and in 1928 they established an association called Sarlo-srp in the Gombas area. We are carrying on these traditions. The Gombas is a valley near Roznava. Every year in June we organize celebrations here in the form of a festival for folkloric groups. Television always broadcasts the event. More than 1,000 participants and almost 20,000 spectators attend. Most recently, even collectives from the Soviet Union, from Hungary, and from Poland were in attendance. On 4 March 1949, our association was born. The following were present at its birth: the Communists J. Loerincz, S. Fabry, Z. Fabry, K. Furinda—the latter was the founder of the first unified agricultural cooperative in Slovakia. Most of the founders were prewar members of the Communist Party. That is our pedigree.

[RUDE PRAVO] And what about today?

[Sido] We are creating new traditions, constantly based on the fraternal relationship between people and nationalities in Czechoslovakia, on the principle of Czechoslovak socialist ownership, and on the development of national culture.

I believe that I can say that we are doing praiseworthy work. In the final analysis, this is attested to also by the Order of Labor which we were awarded in 1969. Our pride is in our ensembles. For example, our chorus of Hungarian teachers in Czechoslovakia successfully performed in Ireland, Great Britain, Finland, Italy, and Hungary. The folklore dance group entitled Szottes, which means hand-woven linen, is a prizewinner in the international festival held at Gorizia, Italy.

[RUDE PRAVO] That is justified pride, but what about everyday events?

[Sido] The significance of our work lies primarily in mass political work. From the establishment of unified agricultural cooperatives through recruitment for industry. Today, we share in the realization of the important document of the National Front regarding activation in the creation, realization, and control of policy. The association has almost 95,000 members, 542 basic organizations in 15 okreses in Slovakia. This encompasses approximately 15 percent of the citizens of Hungarian nationality in Slovakia. However, our special-interest artistic activities or extracurricular education activities are attended by 1.5 million people.

[RUDE PRAVO] Do you encounter a lack of understanding or a certain malice motivated by national prejudices?

[Sido] The level of relationship between the nations helps to determine the degree of mutual recognition.



There are many reserves here in this regard and that is why we sometimes encounter manifestations of being enclosed in our own shell in the microstructure, why we encounter a certain nationality supersensitivity, but also a lack of understanding of the facts that our nationalities are state-shaping entities in the spirit of the law passed by the Federal Assembly. This means that they are not only equal from the standpoint of civil rights as individuals, but also as an ethnic group. And this is true of the language as well as the culture of nationality.

[RUDE PRAVO] What can be done?

[Sido] The international rapprochement must be understood as a process which is occurring throughout the structure of society. In our country, the political, economic, and legislative conditions for this process are in place, among others as a result of Law No 144 dated 1968. These conditions should be manifesting themselves through the use of the mother tongue even in official contacts with organs and organizations, in the use of names for towns and settlements.

[RUDE PRAVO] What form does restructuring have in your organization?

[Sido] It has become manifest in the rationalization of the activities of the apparatus and by increased responsibility of the elected organs of the association in fulfilling the terms of the above-mentioned document of the National Front. Since 1987, we have become members of the National Front. Prior to this time, as an organization controlled by the Ministry of Culture, we had to consult on all resolutions with officials of this ministry. This has now ceased. Organizationally, we only have okres committees; we do not have a kraj-level link.

We are also sharing in legal propaganda and legal education. We are acquainting the membership with the documents and laws pertaining to restructuring. Toward this end, we are making use of employees of okres courts, enterprise attorneys. We are using this means to pursue the increased level of work among our members.

[RUDE PRAVO] What else are you doing?

[Sido] Perhaps using the nationalities culture and education system. These are questions which bear upon the Hungarian Regional Theater at Komarno, on the Hungarian-language periodicals in Czechoslovakia (we have 19 centrally published newspapers and periodicals), on the acceptance of students at universities and other advanced schools, on the training of teachers for schools teaching in the Hungarian language, etc.

[RUDE PRAVO] In what areas are you particularly successful?

[Sido] In the collection of material and spiritual folkloric data, in the revival of popular traditions and popular dance based on the pure source of authentic records. We

are also attempting to activate an intra-association life. However, this cannot be accomplished by circulars or on the telephone. To fulfill a positive program, we are recruiting people through personal contacts, on Saturdays and Sundays.

[RUDE PRAVO] And in what are you not successful?

[Sido] In having popular culture research taken over by a scientific institution which is responsible for this activity—in other words, the Slovak Academy of Sciences, within the framework of basic research tasks. We are not successful in establishing a work site which would perform research in the development of national culture, nor have we successfully established a nationalities museum of popular art. For the present, we have exhibits in private hands.

[RUDE PRAVO] Thank you for the interview.

## GERMAN DEMOCRATIC REPUBLIC

### Party Ideologue Charts Course for 1990's

23000123 East Berlin DEUTSCHE

LEHRERZEITUNG in German No 5, 1989 [signed to press 26 Jan 89] pp 1-16

[Article by Prof Dr Otto Reinhold, director of the Academy for Social Sciences at the Central Committee of the Social Unity Party of Germany—GDR (SED): "On Course to the 12th Party Congress—Continuity and Renewal in Our Society"]

[Text] The 7th meeting of the SED Central Committee has convoked the next Party Congress, the 12th, for the period of 15-19 May 1990 in Berlin.<sup>1</sup> This means above all two things: That an accounting must be made of the societal development in our republic achieved since the 11th Party Congress in implementing the resolutions of the 11th Party Congress, and that in preparing for the party congress, the question must be answered how our societal strategy, how socialist society in the 1990's and in the transition to the next century is to be shaped in the GDR.

Naturally, comprehensive scientific work is linked to that. Teachers at their 9th Pedagogic Congress will attempt, as all social sciences, to make their contribution to answering this central question.

The policy of the SED starts from a fundamental position, namely, the unity of continuity and dynamism, the unity of continuity and renewal in our society. Continuity, i.e., purposeful continuation of the policy decided at the beginning of the 1970's and formulated in the SED program as the further shaping of developed socialist society in the GDR as a strategic goal. This continuity concerns societal goal-setting with its core, the unity of economic and social policy. With it, the border into the next century must also be crossed. It concerns our economic strategy aiming at comprehensive and lasting



implementation of intensively expanded reproduction; it concerns maximum inclusion of modern science and technology in this process, the leading role of the SED, and other fundamental elements of societal strategy. But even today it is completely clear that this continuity is possible only if constantly new prerequisites are created. In the 1970's, different prerequisites were needed than in the 1980's for the implementation of the unity of economic and social policy. It is very certain that in the 1990's, different preconditions must be created than were necessary for the 1980's. On the one hand, it is a matter of the performance capability of the national economy, the material base for this policy and, on the other hand, the intellectual [and] political preconditions. And to a particularly great extent this concerns the creation of those educational preconditions absolutely necessary for implementing policy in the 1990's.

This means that dynamism is for us the condition for continuity. Without dynamism, without change, continuity is not possible. In this we are guided by our ideas on the developed socialist society.

When we speak of shaping the developed socialist society, then this concept was chosen deliberately in the SED program. And for two reasons: For one, it is to express that a developed socialist society is not to be understood as a society that strives for a certain ideal condition and is then completed, but that it is understood as a society which is constantly developing, developing more highly, which must constantly change in order to be successful. That is the intent of the statement in the SED program that the shaping of the developed socialist society is a historic process of far-reaching political, economic, socialist, and intellectual-cultural changes.<sup>2</sup> The concept of shaping was chosen deliberately, since one has to assume that this process does not occur mechanically or automatically. It must be shaped deliberately, and that is only possible under the leadership of the Marxist-Leninist party.

There are clear ideas concerning the process of change.

It is precisely one of the advantages of socialism that this process of change can take place continuously. At present, there is discussion among social scientists of socialist countries whether in socialism there is not also a certain unevenness in development, characterized by periods of stagnation and periods of fundamental restructuring processes. We reject such an interpretation. It is the task of a Marxist-Leninist party to recognize the new requirements in good time, to draw from them appropriate conclusions in good time, and to take measures in good time in order to secure this continuous process of change.

At present, great processes of change are taking place in the world. The 7th meeting of the Central Committee dealt with them in detail, [and] also with those occurring in the world of socialism. Under these conditions it is especially important to have a clear picture, a clear idea of socialist society. The more far-reaching the changes, the more important is a clear standpoint. For this reason,

our Party attaches great importance to having a scientifically founded idea of socialist society so that its further development can be precisely determined.

This clear picture of socialist society is necessary for various reasons.

First, for ideological reasons, i.e., one must know what kind of socialist society is to be shaped. If one follows the discussion in socialist countries, this question is not answered unequivocally. One finds rather divergent ideas at present. Therefore, for ideological reasons it is particularly important for us to have a clear idea of our goal.

Secondly, it is also necessary in order to make clearcut political decisions in all individual sectors. This is as true for the economy as for the educational system. That raises the question: What kind of economy is to be developed? Of course, it is to be an economy with the highest economic effectiveness. But our goal cannot be exhausted in the striving for highest economic effectiveness. If that were the only goal, one would only have to apply capitalist methods which, as is well-known, have a very high economic effectiveness in some areas. But the premise must be that one must know precisely how this socialist economy is to be shaped, what values, what ideals are to be realized with the help of this socialist society. In other words: It must be a socially determined economy, in which the social goals of socialism are the beginning and end of all economic considerations. That means that an inseparable linking of economic and social development must be ensured. At the same time, socialist economy must be developed into a broad field of socialist democracy.

Socialist democracy is not some abstract development process, but is always connected with concrete processes. Thus our goal must consist in shaping an economy in which democratic participation of all is guaranteed. The socialist economy is simultaneously a most important area of life in which an essential part of the talents and capabilities of the personality unfolds. Therefore, the question is not only what level of economic effectiveness is needed, but also, what shape must this economy have so that free development of the personality, its capabilities and talents, is possible. The same or similar questions can also be asked of other areas. Not just any kind of education is to be attained, but education with a determined goal direction, a determined ideology, and the training of determined capabilities. That means: clarity on which socialist society is to be established and which not, on how each individual societal area is to be shaped in a socialist manner, demands a clear theoretical conception.

For this reason, the SED has always paid great attention to the questions of elaboration and further development of the concept of society, the ideas of socialist society, and one can proceed from the premise that our ideas of socialist society were clearly formulated in the SED program. And this in at least two regards: first, with regard to the bases of socialist society, often also called

the general precepts. That means, such a socialist society can be successful only if the political power of the workers' class in alliance with the other working people is secured, if the leading role of the Party is ensured, if the decisive production means are owned by society, if this socialist society is shaped deliberately and according to plan, if socialist ideology has become the determining ideology. But one cannot limit oneself only to these bases. The SED program is further based on the premise that also those goals, values and ideas as well as ideals result therefrom which are concretely pursued. This concerns particularly the 10 points of the program in which the question is answered: What is shaping of the developed socialist society.

It is stressed there that the central question of the SED's societal strategy, the central question of its policy, consists in the unity of economic and social policy. That is to say, such a socialist society must be built in which every progress in science and technology, every progress in the economy is inseparably linked to improving the working and living conditions of working people. With this, an old motto was corrected in a certain regard. For a socialist society is to be shaped in which one does not live only tomorrow as one works today, but that one already lives today as one works today, where an inseparable linkage, noticeable to everyone, is brought about between the development of the economy, science and technology and working and living conditions. If one obtains an overview of the development in other socialist countries, also, it becomes evident that the issue of the linkage of economic and social policy today has become the central question in the entire world of socialism, and that in a positive as well as negative sense. Wherever there was no success in establishing this inseparable connection between economic and social policy, as in Poland, Hungary and the Soviet Union, it has led there to stagnation, contradictions and crisis conditions. Thus this international development has once more emphatically confirmed our position. The central question of our societal policy, our societal strategy is, and continues to be, implementation of the main task in the unity of economic and social policy.

It also is, and continues to be, the central question in developing the driving forces of socialist society. Only on this basis can the unity of Party and the people be secured, and thus the political stability of society ensured. Therefore, for us the unity of economic and social policy is never put into question. But time and again, the question must be answered which new conditions must be created so that this unity can be carried on continuously.

And thirdly, today a modern image of socialism must answer the question how this societal concept must be concretely implemented in every new historical phase, in the 1980's, in the 1990's, and in some aspects, in every 5-year plan period.

In summary one can say that the image of socialism is determined by three essential elements: First, they are the bases from which one must proceed, the general precepts; secondly, they are those ideals, goals and values resulting from these bases; and thirdly, they are the conditions, the way and manner in which one battles for the implementation of these ideals and values in every individual phase of societal development.

On this basis one can make a comparison with the societal conceptions of the CPSU and the other fraternal parties. The same concerns the discussions on this subject which are carried on intensively in a number of socialist countries.

In such a comparison with the CPSU it is first of all necessary to stress two important insights. The first insight is that, in basic theoretical and strategic questions of development, there has never before been as much agreement between the CPSU and the SED as is the case at present. One must above all point out that in foreign policy, today there is complete agreement with regard to the policy of dialogue. Many will know that this was not always so, that there were times when our policy of dialogue was sharply criticized. Today the full agreement in this area is obvious. But this agreement not only concerns foreign policy. It also concerns basic positions in the shaping of socialism. There is full agreement in the assessment of socialism as a historically long-term development phase, at whose center is the task of implementing the advantages and driving forces, the possibilities and ideals of socialism [in a manner] perceptible to all. That also includes agreement on the questions of linking economic and social policy; for only in this way can the advantages and driving forces of socialism be developed. The 19th CPSU Party Conference sharply criticized that social tasks, social goals up to now had been considered a "residual matter." The entire purpose of the 8th Party Congress and the course decided upon there was to overcome the position that social goals are "residual matters." In SED policy, this decisive change was made at the beginning of the 1970's. Today there is full agreement that this linkage is an absolute part of the characteristic of socialism. There is also complete agreement with regard to economic strategy. In both countries, economic strategy aims at comprehensive and lasting implementation of intensively expanded reproduction in the economy. And this agreement also exists with regard to the importance of the scientific-technical revolution in this process. Certainly many other factors could be added.

Sometimes a curious situation arises in discussions with Soviet social scientists. Some social scientists who, 3 or 4 years ago, warned us how detrimental it was that we still have private craftsmen, restaurateurs and other tradesmen in our republic, now point out that the plurality of ownership forms is a great achievement of perestroika.

One can further proceed from the premise that such agreement also exists with regard to the goals and ideals

summarized in seven points at the 19th CPSU Party Conference. If one compares these seven points of the CPSU with the ten points in the SED program, one can easily see that, despite some differences in formulation, there is complete agreement in their nature. This agreement in all important basic positions is also the starting point and basis for the cooperation of our parties in the most varied areas, for the development and solution of joint tasks.

Secondly, one must point out at the same time that every Marxist-Leninist party must proceed from its positions, its conditions when it is a matter of concrete policy, of concrete strategy and tactics. Naturally, in the concrete shaping of this policy there are significant differences. What do they consist of?

One of the decisive policy goals of the 27th CPSU Party Congress and of the 19th Party Conference is the resolution to bring about acceleration of the socioeconomic development in the Soviet Union. The 11th SED Party Congress did not pass such a resolution. During the last decade, an average growth between 4 and 5 percent was achieved in our republic, and everyone knows what great efforts are necessary to sustain this growth to the end of this decade and beyond. A resolution by the SED on a general acceleration of economic development would be in complete contradiction with the realities in our republic and would be an adventurous resolution. It would be clear from the beginning that such a resolution cannot be implemented. The same is also true for accelerating social development. The principal item of the SED's social policy program is the housing construction program. Acceleration in this matter could only mean that the goal is to solve the housing question as a social problem not by 1990, but already by 1989. But everyone knows what great efforts are needed to attain this goal by 1990. A resolution to accelerate social development in our republic would thus be nonsensical and would not at all correspond to the conditions.

But the SED decided at its 11th Party Congress to do everything to attain acceleration of scientific-technical progress, [and] acceleration of the development and economically effective application of key technologies. For that is the certain guarantee for being able to carry on continuous economic growth. Here, without a doubt, exists a difference in the policy of the CPSU and the SED. And it is due to the different objective conditions. The CPSU has characterized the situation of economic and social development of the Soviet Union in the mid-1980's as a pre-crisis situation, the consequence of more than 10 years of stagnation. But that is not the situation of the GDR, in which an overall dynamic development of the economy and society took place in the last decade.

In discussions, Soviet social scientists point out, for example in the area of social policy, that in the course of the 1970's real expenditures for housing construction fell by 30 percent, and expenditures for health care and

education fell by 50 percent. Therefore, the CPSU and the SED face different starting positions in determining policy for the 1990's. The policy of the CPSU aims at achieving the transition from stagnation to dynamism in the economic and social sector. The policy of the SED concentrates on continuing the present dynamism in future, also. It is evident that it is complicated to master both tasks. But it concerns different tasks which must be mastered with different methods, in different ways. For this reason, the policy of the SED must of necessity differ from that of the CPSU in this area.

This obviously also holds true in other areas. In the battle for scientific-technical progress, for great economic effectiveness, one can note two conceptions at present. One is advocated above all by economists in Hungary, the Soviet Union and Poland. The other conception is held primarily by the SED and a few other socialist countries. Both conceptions are based on the premise that scientific-technical progress must be accelerated, thus being the decisive source of high economic effectiveness, and must be used to carry out the unity of economic and social policy in socialist countries. This requires further development of socialist production conditions. There is no discussion whatsoever about this issue. But the type and manner of approach is different. In the Soviet Union and Hungary the idea exists that first of all great changes in ownership conditions, expansion of market relations, a broad development of socialist democracy, and competition are necessary, in the hope that from these changes an accelerated development of science and technology and greater economic effectiveness will accrue.

The SED pursues a different conception, and with it a few other socialist countries, such as the Czechoslovak Communist Party. The starting point is a detailed analysis of the changes occurring in science and technology or, in more general terms, in the development of productive forces. The focal point is questions such as: What does the application of modern key technologies and their development mean for the national economy? On which key technologies do we concentrate, which are of very special importance to the GDR? What changes in the economy do these key technologies bring about? And the question: What changes in the nature and content of work accrue therefrom?

From this insight into the development of productive forces, the development of key technologies, the necessary conclusions must be drawn for the shaping of management and planning, for the shaping of the combines, for the shaping of the forms of material interest, for the shaping of goods-money relations. In this, not only our own experience is taken into account, but also that of developed capitalist countries. In imperialist countries, also, great changes in the structure and management systems of corporations are taking place today. The structure of a corporation derives from the processes of technical change which are occurring now and will do so in the 1990's. Thus



significant changes in the structure of West German corporations are being implemented. New structures of corporate management, the shaping of the corporation are derived from the knowledge of the probable development of modern technology in the 1990's, and not vice versa. That is our starting point, also. If, by contrast, one formulates somewhat pointedly the position of some Hungarian economists, they are of the opinion that enterprises must only be exposed to competition, and modern technology and high economic effectiveness would follow [of themselves]. Our position is: to create efficient economic enterprises and to shape them continually so they can also stand up to competition.

Our goal, therefore, consists in the creation of efficient economic units capable of implementing these innovation processes, which can also actively maintain and expand their position on the world market.

Many other differences could also be mentioned. One must point out one [other] difference since it always leads to many discussions. Soviet social scientists and representatives of the CPSU ask us time and again if we in the GDR are not also considering introducing the so-called lease system in agriculture. Under that system, a part of the land, livestock or the stables, together with the appropriate technical equipment, is leased to brigades or families. To that we can only answer: If we did that, one could be certain that agricultural productivity in the GDR would drop by at least 50 percent within a very short time. And that for the reason that in our republic we have a totally different starting point from that in the Soviet Union.

Such an approach is certainly necessary in the Soviet Union today. It is a matter of increasing foodstuffs production as quickly as possible and to significantly improve the population's food supply as quickly as possible. Simultaneously it is entirely clear that this road sets narrow limits to the application of modern science and technology.

The advantage of agriculture in the GDR consists in the very fact that, in the last 3 or 4 years, a breakthrough was achieved in the application of modern science and technology. And it turned out that even our agricultural production cooperatives alone are not able to apply this modern science and technology with great effectiveness. For this reason, the SED chose the road of cooperation in order to create thereby better conditions for the application of modern science and technology. It would be great nonsense and at the same time one of the most detrimental measures which one could implement, were one to abandon that line and go in any form to such lease systems. The GDR possesses a highly productive agriculture. Ninety percent of foodstuffs are produced in agricultural production cooperatives. Thus our agriculture has other tasks on its agenda. They are: How can cooperative property, cooperative labor be better organized, better utilized? How can that be tied to new forms

of cooperation? These are extraordinarily important questions which, naturally, must be answered, but never by way of a lease system.

This example was meant to show that in our republic, different objective starting positions exist in important questions of societal development. A successful policy can only be carried out if one proceeds from these starting positions and conditions.

The 7th meeting of the SED once more clearly formulated our position on the policy of the CPSU, our relations to the Soviet Union. This position can be summarized in four points:

1. Restructuring in the Soviet Union, as decided at the 27th Party Congress and the 19th Party Conference of the CPSU, is absolutely necessary. And not only because of internal developments in the Soviet Union. It is clear to any sober observer that during the next two decades, the fate of world socialism will depend to a great extent on the success of this restructuring process in the Soviet Union. The success of this restructuring process will primarily decide the positions which world socialism will occupy in future. And the CPSU supports the policy of the SED established at the 11th Party Congress. During the most recent talks between Erich Honecker and Mikhail Gorbachev, this agreement was once more emphasized very clearly and plainly.

2. Our relationship with the Soviet Union is determined [by the fact] that one can say without exaggeration that hardly any other country supports this restructuring process to such an extent as the GDR. One must only recall that our economic relations were expanded. That is support with deeds and not only with words. Thousands of engineers and skilled workers labor in the Soviet Union on important projects. There exists a joint program for modernizing the Soviet food processing industry, modernizing a significant part of light industry, and an important part of the most modern machine tools for this modernization process come from the GDR. Werner Eberlein, in his speech on the occasion of the 71st anniversary of the October revolution, mentioned specific figures.<sup>3</sup> One could list further examples without any effort. One must also point to the large exhibit carried out by the GDR in Moscow in autumn of 1988—the largest exhibit abroad in the history of the GDR. It was primarily an offer for further expansion of cooperation between our two countries. Modern key technologies were the focal point.

Not least of all, this process is also supported by the fact that a successful shaping of developed socialism is taking place in the GDR, thus securing political stability, economic and social dynamism at the most sensitive border in the world.

3. Our relationship with the Soviet Union is determined [by the fact] that the line of the CPSU, of the Central Committee, receives full support from our Party. Not

least of all, also by the fact that in our country, all speeches by M. S. Gorbachev and important decisions by the CPSU were published. I know of no other country outside the Soviet Union where this is done to such an extent. That does not mean, however, that one can agree with everything that is said in discussions or written in the press. Naturally one cannot agree when Soviet artists appear in West Berlin and declare their hope that the unity of the German nation be soon restored, or: When a historian appears in Bonn and declares that the Wall is a relic of the cold war, it would soon have to disappear, or: when in "Sputnik" Hitler's guilt and the guilt of fascism is played down and modified.

Our party has always been anxious not to have open and public disputes when it is not absolutely necessary. The SED will continue to follow this line. We present our viewpoint positively and constructively to make it understandable for everyone where the mutualities and where the differences are. But it is quite certain that in a few questions a discussion and confrontation will be unavoidable.

4. The CPSU and SED start from the premise that there is no universal model of socialism, but rather, that the general precepts always must be carried out under specific conditions. That is not a new realization.

When our country celebrates the 40th anniversary of the GDR this year, then these 40 years are linked with many things that show our endeavor to take into account the specific conditions of our country.

In important areas we also succeeded in conforming in practical politics to these specific conditions. One must only recall that the way and manner in which the dictatorship of the proletariat came into being here is different from those in other socialist countries. That also holds true for the development of socialist property, its linkage to the private property of craftsmen and business people, the policy of alliance, and many other things.

The building of socialism and further shaping of socialist society in the GDR was, and is, tied to a great number of specific conditions. Four of these specific conditions must be emphasized in particular.

That is, first of all, the state and development level of the economy and society.

The GDR possesses an important material-technical base which was modernized in many areas during the last 10, 20 years, but in which also significant structural changes have taken place. At the same time the GDR possesses a significant scientific potential, and that also includes that earlier, under the conditions of capitalism, it was linked to a large extent to production. The large chemical and electric corporations have always had a significant scientific potential. Thus this is not a totally new idea. And, naturally, these experiences played and play an important role. The GDR also has a significant education potential.

This year, 90 percent of all employees have a completed vocational training, about 23 percent have a completed university and college education. That is an extraordinarily important factor for SED policy. And one must also add that the GDR has a worker class whose majority, over many generations, has been part of the workers' class and connected with modern production. That is of great importance for our development in contrast to some other socialist countries, whose working class in large part is only forming in the first or second generation. That is a significant difference and one of the great advantages held by the GDR.

The second specific feature consists in the traditions and experiences of the GDR.

Our republic has such traditions to a plentiful extent, which are of greatest importance for the shaping of socialist society. Not least of all that includes the role of labor unions and the cooperative movement in the German labor movement. The cooperative movement was always closely linked to the labor movement. Formerly it was part of a good communist and a good social democrat that he shopped in the consumers' cooperative store. Not only because at year's end a dividend was paid out which was enough for Christmas shopping, but because these consumer cooperatives also financially supported many struggles of the labor movement. Thus the cooperative movement is nothing new for the GDR, but was continued after 1945 under our conditions. Today, there exist a multitude of cooperatives, from LPGs to consumers' cooperatives, farm trade cooperatives, credit cooperatives, to housing construction cooperatives. This fact is emphasized in particular because now, in discussion with other socialist countries, this idea of cooperatives is sometimes praised as a totally new idea, an idea which Lenin had developed and whose implementation was being begun only today.

The battles of communists also belong to these traditions. In the social struggles of communists in the Weimar Republic, two issues were of special importance: For one, that was the struggle against mass unemployment, particularly during the last years of the Weimar Republic. This tradition has led to an important realization here. Socialism and unemployment are incompatible. One of the most important goals in the struggles of the labor movement consisted in removing this fundamental evil of capitalism. For another, it is the struggle of the German workers' class to solve the housing question. This question already played a role at the founding party congress of the KPD. In the years up to 1933, it occupied a significant place in the struggles of communists. For this reason, it was self-evident that great attention was paid to solving the housing question as a social problem.

After 1945, new traditions developed, from the multi-party system to the fact that about 200 social organizations exist in the GDR, which express the specific interests of individual classes, groups and strata. Today



that is considered in a number of socialist countries as an essential element of socialist democracy. But that was a tradition for the GDR which has always played a large role in its development.

The third special feature is that the GDR is directly at the separating line of the two societal systems, of the two military alliances, at the most sensitive border in the world. That also includes the fact that in our republic, socialist society had to be established under open conditions.

Open conditions also include that last year, 5 million travelers visited the FRG or West Berlin, and this year it will certainly be even more. Meanwhile, there exist 50 [sister] city partnerships. With parabolic mirrors one can now receive 10 or 11 West German television stations. If one considers tourist traffic to and through the GDR, then there is no other socialist country which must shape socialist society under such open conditions.

But this means that one must pay particularly great attention to political stability in this country. Political stability at this border is of greatest importance for the internal development of the GDR as well as for balance in central Europe. Without this balance, which can only be had through political stability in the GDR, there can be no guarantee of peace in central Europe. Therefore the question of how this political stability is secured is of the very highest significance.

Under these conditions, ideological work has always played a decisive role. Political stability could not have been guaranteed without ideological work. These conditions are also essential for the fact that newly surfaced questions had to be decided quickly. It would be unimaginable for the GDR that there might be a harvest failure over 3 or 4 years. It would be unimaginable for the GDR not to ensure the food supply even for only 2 years. It would have far-reaching consequences for securing political stability.

Whoever does not observe these specific conditions cannot arrive at a clear policy, a clear strategy.

The fourth specific feature consists [in the fact] that the GDR is not faced with just any capitalist state, but with the FRG, an FRG with the greatest economic potential in Western Europe, an FRG with the greatest military potential in Western Europe and, after the United States, the strongest NATO force, and an FRG with the highest standard of living compared to other Western European countries and with considerable political influence.

We cannot choose our vis-a-vis. And that will remain so. But from this result a number of important conclusions. Two of them will be pointed out once more. The first is that the SED must carry out an economic policy predicated on high dynamism. Anything else would be a policy of suicide. But there is the discussion whether in socialism there could not also be a temporary stagnation

or, as was said a few years ago, zero growth. For us that is unthinkable. Under these conditions, a waiver of dynamic economic development would lead to a dangerous situation. For this reason, the question of how to secure this dynamic economic development under any conditions is one of the central questions.

The second conclusion to be pointed out is that the quantitative economic potential of the FRG will be greater than that of the GDR over the next 10 to 20 years. If one considers the absolute volume, it would be unrealistic to say that in 10 years, our republic would have a greater economic potential. That will not come to pass. But from that the great importance of social policy becomes clear for us. Thus this competition cannot be won by our republic's having an absolutely greater economic potential within the foreseeable future. [Our] International influence, the attractiveness of our socialist order will primarily be increased by succeeding in converting economic potential into social progress. Therefore, for us it is of greatest importance that scientific-technical progress is inseparably linked to social progress. In all discussions with social democrats, particularly with trade unions, one question always looms in the foreground, that being: Is rationalization without unemployment possible? One of our most important tasks consists in proving that under socialist conditions, rationalization, technological change without unemployment, is possible. For us it is decisive which educational system we have. For us it is essential which medical care we secure, how we solve the housing problem, and what cultural achievements we produce. That means, this unity of economic and social policy is not only a domestic requirement for shaping socialist society, but it also holds great international significance for the confrontation with capitalism, particularly with the FRG.

The 7th meeting of the SED Central Committee was guided by this viewpoint in the preparation of the 12th Party Congress and the development of the basic lines which will also be determinant for the 1990's. In Erich Honecker's paper those basic ideas in particular are developed which, naturally, must still be further elaborated and made more concrete. But at that meeting it was very clearly worked out in what direction we want to approach these 1990's.

A few of these questions shall be briefly mentioned because extensive scientific work is involved in their further development.

A first observation in Erich Honecker's paper states that in the 1990's, also, a growth of national income by 4 percent is necessary to enable uninterrupted continuation of the unity of economic and social policy, to secure expanded reproduction, and solve other tasks. But: How must this growth be shaped in the 1990's? And here there are a number of questions which must be worked out and answered concretely.

It is clear for us that this growth is socially oriented, that the unity of economic and social policy must be linked to it, so that this growth is determined by social goals and has the social goals as its starting point. Question: How does our economic structure change in the 1990's? Naturally, modern key technologies will gain in importance, their weight will increase rapidly. But at the same time, some other areas are not to be further developed, but even reduced. At present, we have an output of almost 320 million tons of brown coal. It is totally clear that this is the maximum that is compatible economically and ecologically. Question: How is the energy supply to be ensured with simultaneous reduction of expenditure, i.e., the mining and consumption of brown coal? The possibilities do exist. A comparison between the GDR and FRG shows that in the GDR at present about 30 percent more energy is consumed per capita than in the FRG. There are various objective reasons for that, mainly to be found in the structure of our industry. But in addition to these objective causes, there is also the possibility to significantly reduce this expenditure further through modern technologies. And in growth policy one must start from the premise that lowering energy expenditure is the cheaper method to supply energy demands. At the beginning of the 1980's, much could still be achieved through organizational means. Certainly there are still possibilities in this regard today, but in principle, large-scale reduction is no longer possible in this way. It is only possible if the latest guidance systems, the latest information technology, computer control are used, i.e., utilization of modern key technologies. Optimistic estimates point out that in our economy brown coal output during the 1990's can be reduced to 250 million tons through the use of modern key technologies. Other estimates assume that brown coal output can be brought down below 300 million tons in any case. These questions are also inseparably linked to the nexus of economy and ecology. Much has been done in this area. There is no reason whatsoever to hide our light under a bushel with regard to what has been done in environmental protection. Only, for growth in the coming years this nexus of economy and ecology is of the very greatest significance. Sometimes there is the idea that environmental protection only demands great investments and is costly, and that is so in some areas. But if it is very closely tied to the reproduction process, then there are many areas where this linkage leads to a reduction in expenditure. Reduction in energy expenditure is simultaneously a lowering of costs. Creating closed material cycles, where every accruing waste is immediately consumed again, also leads to a reduction in expenditure. This means that linking environmental protection with the reproduction process is one of the most important goals and one of the most important tasks in the 1990's.

In summary one must point out once more that it is not enough to know that a 4-percent growth rate is needed, but that one also has to answer how these 4 percent can be achieved, [and] by what means. It is completely clear that it is only possible through intensification, through lowering expenditure. We have no other sources for

growth available. Therefore, it must be ensured that this reduction in expenditure is secured by great, significant technological processes of change.

That is possible only through acceleration of scientific-technical progress and use of modern key technologies. In Erich Honecker's paper, focal points in this area were named. Three focal points are in the foreground. First is the accelerated development of microelectronics.

A successful development took place in this in recent years. Sometimes it is pointed out in discussions that the development of the 1-megabyte chip is certainly an important success for us, but that it is already being produced in capitalist countries. What is the situation in Europe? At present, this 1-megabyte chip is being produced by four group corporations, among them Siemens. The great difference, however, is that Siemens produces this 1-megabyte chip completely on the basis of Japanese licenses, licenses by Toshiba. They did not develop this 1-megabyte chip, but bought licenses and began organizing mass production. Purchase of licenses in this field is not possible for socialist countries because of the COCOM list. This means that the 1-megabyte chip, including all equipment and materials, had to be developed entirely by us ourselves. Unfortunately, cooperation with other socialist countries in this field is not yet at the necessary level. For this reason, one must stress the grandness of this achievement. But one must also see that it involves a significant financial expenditure, which is naturally higher than if we could fall back on a well-functioning division of labor between socialist countries in the development of microchips.

But this development in the area of microelectronics is the basis for acceleration of automation and the transition to computer-assisted production in individual enterprises and areas, the second focal point of the development of key technologies in the GDR.

A third question concerns the processing of brown coal and other fuels, in the chemical industry, the metallurgical industry, wherever it is possible.

The 7th meeting of the Central Committee once more pointed out that one of the big problems is investment activity. It is well-known that the Party has been occupied with this question for quite some time. For one, investment activity, our investment possibilities, are limited by the size of our economy. Therefore, the correct use of investments is of the greatest importance. For another, our party has concerned itself repeatedly with defects in managerial activity in this area. One cannot have modern technology without investments. A certain international index has evolved that in microelectronics, for instance, every new generation of switching circuits requires twice as many investments as the previous one. One only has to consider how many measuring devices are needed, [how many] new production sheds must be built, and what high demands are made on production conditions, then one understands

that a significant investment expenditure is necessary without which one cannot have modern microelectronics, modern technology. That means: Investments are one of the focal points of the 1990's.

Our concept of society is based on the premise that a further development of socialist production conditions according to these requirements is also necessary. And in this area, also, focal points have been determined.

In first place stands the further development of combines. For combines, in turn, the most important [aspect] is the transition to self-financing. Since the beginning of the present 5-year plan, 16 combines have been converted to self-financing, and on the basis of their experience, all combines are to be converted to self-financing as of 1991, i.e., as of the next 5-year plan. It is completely clear that this transition to self-financing is not primarily a financial problem, but that it has to do with the weight, structure, flexibility and many other things in the combine, with the relation between central planning and own responsibility of the economic units, with the shaping of goods-money relations, etc.

Naturally, socialist democracy constitutes an important element in this development. There is a difference whether there is discussion in a combine on how a centrally determined plan is carried out, or if it is discussed in a combine what conception they propose for it. Thus this transition to self-financing means a considerable expansion, an enlargement of socialist democracy. The influence of workers thereby becomes considerably greater in the combine as well as on the national economy.

This also includes a further development of the management and planning system overall. Self-financing makes new demands on the ministries and also on the State Planning Commission. It includes the further linkage of science and production as well as the subject of the relationship of planning and market in socialism, much discussed at present. In this latter field we also have very clear ideas. Naturally, our party has always paid great attention to the goods-money relation. The greatest part of our products were manufactured as goods, were sold as goods, both domestically and abroad. Nevertheless, the market gains in importance in the process of further technological change processes. In a world in which 30 percent of the products are renewed annually, i.e., every 3 years a basically new production profile comes into being, needs also change. And whoever does not precisely know these changes will not be able to develop a clear concept for effective production and saleable products. Such knowledge is, therefore, of the very greatest importance.

If one converts to self-financing of the combines, it also leads to a new position of these combines in the goods-money relation and to new effects of the goods-money relation for the combines. Therefore, there can be no difference of opinion here that the market, the goods-money relationship, are of great importance and that the

importance of this market, the importance of this goods-money relationship, will grow further. But this question is not the decisive one, but rather the question whether this market replaces planning, takes the place of planning. And that is totally out of the question.

Our starting point is that central management and planning constitutes one of the great advantages of socialism and will remain of the very greatest importance in future, also. One cannot even say that now one's own responsibility is getting larger and the importance, the tasks of the central [authority] are thus getting smaller. That, also, is out of the question. In some areas the importance of central management is becoming greater, as in research and development and in structural policy.

The importance of central management and planning can be summarized in a few points:

The first and most important point is that without central management and planning, there can be no unity of economic and social policy.

No individual combine, be it ever so productive, is in a position to ensure full employment within the framework of society. That can be done only by way of society. We could never have implemented our housing construction program had we left it to market forces. We could never secure socialist democracy and the influence of the trade unions if market forces were determinant. Central planning is primarily needed to secure the unity of economic and social policy. And wherever this market assumes a disproportionately large importance vis-a-vis central management and planning, the creation of new social contradictions and conflicts are linked to it. That is a totally natural process.

Secondly, central management and planning is absolutely necessary to purposefully implement the structural policy of our national economy.

Without central management and planning in the GDR, the pace of development of microelectronics that we achieved since the mid-1970's would not have been possible. And we are facing even greater technological processes of change. Without central management and planning this process cannot be mastered, neither technically nor economically, and least of all socially. For the necessary social conditions for these processes of change must be created in advance.

Thirdly, central management and planning is absolutely necessary today in order to concentrate research and orient it toward those focal points which are needed for the technological conversion process.

Recently, in the West German weekly, DIE ZEIT, there was an interesting interview with the head of the AEG corporation, Heinz Duerr. He was asked whether he was of the opinion that the corporation can be completely exposed to the free market economy. His answer was



unequivocal and clear, that it was completely out of the question. Research cannot be left to the market. And he pointed out that in the FRG, about 140 billion DM are paid in subsidies, which has nothing to do with the forces of market economy.

Fourth, central management and planning is necessary to ensure the linkage of economy and ecology. In many areas this cannot be accomplished by individual combines, enterprises and institutions.

Fifth and last, central management and planning is necessary above all to secure the most favorable conditions for the enterprises' and combines' own responsibility.

Thus we have a clear idea of the further development of socialist production conditions and their focal points. It is certain that important work still has to be performed in this.

And finally, this scientific-technical process of radical change is tied to significant changes in the nature of work, in the demands placed on the individual.

In recent times, much research has been carried out in this area. Some of the results will be listed here. The first result is that the technical change process, the introduction of state-of-the-art technology in no way reduces the importance of the individual, the importance of man. That is completely out of the question. All studies prove that, with the level of automation, the role of man, the demands and responsibilities of man grow. Above all high qualification, great activity and a sense of responsibility are required. Even today one can already point to positive as well as negative examples. If the necessary training and competency for mastering new technologies is lacking, the possibilities of modern technology cannot be fully utilized. If one follows this development over a longer period of time, one can say that the higher the technical level, the greater the role of the individual. And this is so not only in the shaping or project-planning of the new technology, but also in implementation. In future, also, there will be no production totally without people. The responsibility of the individual in using fixed assets continues to grow. It is both a political and a professional responsibility. The individual works with fixed assets which today cost many millions and for which he is responsible. Every second of stoppage is an enormous loss to the national economy. That is the first observation from which one must proceed.

All studies carried out here have emphasized that this technological process of change to automation does not lead to any disqualification. We studied all projects with flexible automation in the GDR. The trained and retrained personnel working there are primarily a kind of consequence of not yet mastered universal automation and not the result of this automation.

A second observation to be stressed is that fundamental changes in the division of labor are taking place. While

division of labor up to now mainly aimed at subdividing work in the assembly line system ever further, flexible automation and other forms of automation mean the reverse process. In a flexibly automated system many processes are tied to each other—for example, cutting, grinding, turning, measuring and steering. For this reason, demands are very different from [the demands made on] someone who only performs two or three actions at an assembly line. He must have comprehensive knowledge of the processes taking place there. He must have professional knowledge and experience and the proper attitude. A modern effective production depends decisively on this attitude.

A third observation resulting from the studies is that this technological process of change leads to the situation where the individual no longer processes the immediate product—the turner, for example, had worked the individual product at the lathe—but he starts up, tends and supervises a production system. The individual product is contained in this production system, but he no longer works on it directly. He controls the production system in the framework of which the individual products are processed. That means, however, that he must have a very different understanding.

That is also one of the essential problems of management activity in industry. Flexible automation brings about new connections between different branches, different areas of production. That is what is theoretically called further socialization of production. It has reached a new stage. Flexible automation is possible only if everything functions 100 percent. When a screw was missing in manual assembly, one could say, we'll screw it in next week after we get it. But in flexible automation, if any one part does not function properly, the entire system does not function. That means both for management and the worker employed there that they must have a different understanding. The worker must know the system and ensure its functioning. That, of course, is extraordinarily important for the demands to be made on the worker. The intellectual idea, the intellectual anticipation of the entire production system is a condition for its mastery.

Finally one must point out one last observation. All the studies showed that the research and development fields in combine and enterprise, respectively, are becoming ever more important, that their share in the number of employees continues to grow rapidly. But in the direct production processes, the well-trained skilled worker continues to be the central person. Scientists and technicians do not replace him there. This change due to the growth of research and development takes place within the framework of the entire combine or operational sector. In flexible automation, 80 percent of all personnel are skilled workers, highly qualified and experienced.

It also becomes evident that education, and above all continued education, is becoming ever more an essential element of the reproduction process. That is not a

process which takes place next to and outside of production. The requirements of the reproduction process, its technological renewal and mastery are determinant. The demands resulting therefrom can only be satisfied if education and continued education are organically, systematically, foresightedly and firmly tied into the reproduction process.

If one studies our combines, then those are the most productive which also have a developed and well-functioning continued education system. That, for instance, holds true for Carl Zeiss Jena. Zeiss has a well-functioning continued education system where those responsible for technological processes of change must also determine in advance precisely which new educational demands will be placed on labor. No reproduction process can take place without these educational measures. According to our insights, this also creates a problem. The combine is responsible for continued education. But how can cooperation between combine and central managements in the field of education be shaped more effectively? In this connection, at Zeiss one has developed a shrewd system, one could say, of how top people are discovered and promoted. That is extraordinarily important for the development of top products.

Questions of continued education, of education overall, but particularly questions of continued education, are one of the most important conditions so that our strategy, economic strategy as well as societal strategy, can be successfully implemented in the 1990's.

These are a few questions to which attention should be directed in connection with preparing the 12th SED Party Congress. The 7th meeting has developed a clear concept on them. But many questions, both practical and theoretical, remain to be answered before the 12th Party Congress.

#### Footnotes

1. See: 7. Tagung des Zentralkomitees der SED [7th Meeting of the SED Central Committee], 1/2 Dec 1988. Mit dem Blick auf den XII. Parteitag die Aufgaben der Gegenwart loesen. Aus dem Bericht des Politbueros an das Zentralkomitee der SED. [Solving the tasks of the present with a view to the 12th Party Congress. From the Politbureau report to the SED Central Committee] Reporter: Erich Honecker, Berlin 1988, p 11/12.

2. See: Programm der Sozialistischen Einheitspartei Deutschlands [SED Program]. Berlin 1976, p 19.

3. See W. Eberlein: Das Ziel des Sozialismus ist eine sozial gerechte Welt ohne Kernwaffen, ohne Krieg [The Goal of Socialism is a Socially Just World without Nuclear Weapons, without War]. In: NEUES DEUTSCHLAND, 8 November 1988.

#### Ecumenical Group Demands 'Greater Justice'

23000127 Frankfurt/Main FRANKFURTER

ALLGEMEINE in German 24 Jan 89 p 5

[Unattributed Article: "Churches in the GDR on the Way to Basel—Demands for Justice Openly Discussed—First Step in the Conciliatory Process"]

[Text] GDR church newspapers are reporting, without the intrusion of state censors, on the draft document "Greater Justice in the GDR—Our Task, Our Expectation." This was already made public on January 10, 1989 by an interdenominational work group in East Berlin. Representatives from Lutheran state and independent churches and from the Catholic church worked together in preparation for the European Ecumenical Convention, which will be held from May 15 through May 21, 1989 in Basel under the title "Peace in Justice." For the World Convocation for Peace, Justice and Preservation of the Creation, the Catholic Church will merely participate, but it will not cosponsor it. In contrast, the Council of (Catholic) European Bishops Conferences will hold the "Peace in Justice" convention in Basel along with the Conference of European Churches. Most of the Protestant, Anglican and Orthodox churches of Europe are members of the Conference of European Churches.

State and party leaders in East Berlin claim they fundamentally know what is necessary and good for the individual and for society. This claim is disputed in the draft document calling for justice in the GDR. "Restraint and frustration" hinder the solution of social, ecologic and economic problems in the GDR, it says in the draft, as reported by the Lutheran Press Service. "Far too many people have lived with disappointed expectations" in the GDR. Because the party and the state expect people in the GDR "to say what they want to hear," people have become accustomed to "saying other than what they think, and not acting according to their conviction." This comes at the expense of honesty and truthfulness. "An atmosphere which fosters courage to participate in public affairs" is called for. An openness in which problems are honestly addressed has been lacking in the GDR in the past. Clarification is called for to explain what rights and responsibilities the individual has: "Our society needs citizens who can see the GDR as their home." Among the demands are education through adulthood, tolerance for those of different opinion and privacy of information; the surveillance over people in the GDR is denounced. It is the Christians' job to "take bold steps towards more justice." They must be prepared to suffer and accept disadvantages for that.

As in West Germany, the Working Group of Christian Churches has asked for delegates from the Lutheran state and independent churches and from the Catholic and Orthodox churches for preparation for the European Ecumenical Conference. There has never before been such broad cooperation at official levels of all denominations, as there has been with special (interdenominational) groups. It is a beginning step in the conciliatory



process. The first preconference in the GDR took place in February 1988 in Dresden, and the second was in Magdeburg in October 1988. Two further incomplete draft documents in Magdeburg from the preparatory circle in the GDR were made public early January, 1989 in East Berlin. These drafts concerned the protection of human life and questions of military service, and went along with the demands for justice in the GDR. At the final preconference in Dresden in April, all the drafts are to be accepted in their final form as a presentation from the churches in the GDR to the Basel conference in May.

It is noteworthy that news about the draft documents concerning demands for justice could be reported in the Lutheran church newspapers without intrusion by the censors, because in the past the censors prevented the appearances of texts which listed problems in the GDR with much less clarity. Publication makes it possible to address these documents in detail in the Lutheran and Catholic parishes in the GDR. They could also still formulate proposed changes for the Dresden conference.

#### **Environmentalists Meet with Government Officials**

23000120 East Berlin *DIE KIRCHE* in German  
12 Feb 89 pp 1-2

[Unattributed Article: "A Discussion in a Frank Atmosphere—GDR Ministry for Environmental Protection Representative Spoke with "Arche" Activists"]

[Text] At the invitation of the GDR Ministry for Environmental Protection and Water Resources, there was an informational meeting between ministry representatives and people representing the Green environmental network "Arche" on January 27 at East Berlin's "Center for Shaping the Environment." The primary discussion topic was the Schoneiche (near Berlin) special waste incineration facility. The Fifth Berlin Ecology Seminar addressed the Environmental Ministry last October (1988) with pointed inquiries. The discussion, which lasted approximately one and 1/2 hours, centered on these points. After the discussion, "Arche" people said it progressed in a factual atmosphere and that they got concrete answers to their questions.

The Environmental Ministry staff emphasized that the West Berlin firm Berlin-Consult had agreed to construct the facility in accordance with the scientific-technical state of the art. Expertise was drawn from various experts around the world. For the project itself and during the construction phase, the contractor was given certain restrictions on the part of the GDR. For example, the Ministry staff mentioned the recently agreed construction of a "monolandfill" ("Monodeponie") for solid residue from the special waste incineration facility, which will be up to state-of-the-art standards. That means, among other things, a double bottom insulation lining, also known as seepage water containment (to insulate groundwater from leaching in, and back out, of the landfill).

Until completion of this monolandfill, the state discussion partners continued, the temporary storage of this material will be on a concrete pad in the landfill site. The solid process residue from the facility will be stored in double-lined plastic sacks. It will be protected from rainwater by means of a foil cover. The sacks will be X-rayed before use, to check thickness.

The Schoneich facility is designated for industrial byproducts and has the quality of a high-temperature incineration facility which can dispose of low-risk materials, the Ministry people added. No highly toxic waste will be burned in the facility, but rather "specified waste materials." This facility would serve to take the load off the Vorketzin dump site. Besides, it is an international trend to burn waste instead of burying it.

In response to the question why the facility location was chosen directly on the border of the Motzner Lake Natural Preserve and Rest Area, bordering fields and only 1,600 ft away from gardens of the village of Gallun, the discussion partner stated that the location has historical significance. It signifies optimization for VEB Potsdam Dump. In addition, dump gas which otherwise would be burnt off is utilized.

The Fifth Berlin Ecology Seminar also turned to the West Berlin Senate and the Berlin-Consult firm with their inquiries. While the Senate had not yet responded, the inquirers received a thorough response with technical data presented in detail from the West Berlin firm which supported what was stated in the beginning: "...we conceived, designed and built this facility from the very beginning as using the latest technology."

The "Arche" considers itself an ecology network in the Lutheran Church. There are currently 20 to 30 groups with a total of about 200 to 300 active members belonging to the group, which has existed for just one year.

The "Arche" is not interested in building a central structure, but rather in the possibility of exchange of information and experiences among groups in our Church engaged in ecological matters. "Arche" members emphasize that the actual work is done in project groups in the various ecology circles. It is one goal of the work to make information on ecological questions available and to reach the local parishes ["Kerngemeinde"] with it. Naturally, it is hoped that the parishes will make themselves more open to this work, and also that church leadership will take the requests by the network seriously and support them. "Arche" members are pleased with parish invitations and always happy to participate in church services or other parish activities.

It is also important to them that they are not single-issue people. They also seek cooperation with other social groups and institutions. In this context, they state how important it is for their work to incorporate technical people, particularly scientists. There are already precedents for this, for example, in a human ecology work

group, in which primarily doctors and hygienists work on questions of environmental burden and effects on human organisms. Recently, a transport ecology group composed primarily of technical people worked on a study of the problem of small garden complexes immediately adjacent to autobahns. This study is to be first given to the Environmental Ministry.

## POLAND

### Rehabilitation of Victims of Stalinism

#### Apology to Gen Maczek

26000358 Warsaw PRZEGLAD TYGODNIOWY  
in Polish No 10, 5 Mar 89 p 2

[Article by Włodzimierz Krzyzanowski: "Commander's Return"]

[Text] Edinburgh, 26 February 1989, one of the most beautiful neighborhoods of the capital of Scotland. On the door frame, there is a brass plate with the caption "Maczek." In May of last year, I visited this house to get the first and only interview given to the Polish press by the legendary commander and national hero Gen Div Dr Stanislaw Maczek. This time, Mrs Zofia Maczek opens the door of the house for me. Over the last 6 months, the health of her husband, who is almost 98 years old, has deteriorated very much. Therefore, only the general's wife could talk to me.

"I would like to express, through your good offices, our gratitude for the moving letters and expressions of respect which we have received from Poland and the world over since the publication of the interview with my husband in PRZEGLAD TYGODNIOWY. There have also been very unfavorable responses. It was said that toward the end of his life Gen Maczek began to collaborate. This, after all, is not true. It is just that we follow the process of democratization of life in Poland with much attention, and, I will say it openly, hope, despite the distance separating us from Poland, despite differences in our views on many issues, and, putting it plainly, old age."

I was received in the main hall of the residence. Compared to last year, there are considerably fewer valuable decorations, diplomas, and keys to the cities liberated by the general. Mrs Zofia Maczek comments:

"Our life is coming to an end inexorably. We are transferring all historical mementos to museums which have undertaken to commemorate the courage and gallantry of Polish soldiers."

The time is 11.10 hours. I hand to the general's wife a letter by Mieczyslaw F. Rakowski addressed to her husband. The letter is received after it has been read, and the general has been consulted.

"Warsaw. 16 February 1989.

Chairman of the Council of Ministers Mieczyslaw F. Rakowski

[To] Division General Dr Stanislaw Maczek, Edinburgh

Dear Mr General,

I am writing to you in my capacity as prime minister of the Polish Government which, as I am profoundly convinced, is making the most important changes since 1944, transformations democratizing life in Poland.

Among very many issues which I have to attend to is the desire to right the wrongs inflicted on you, Mr General, in the past by Polish authorities.

I regret the way you, Mr General, and your soldiers were judged then. Despite many unfair judgments and decisions by the Polish authorities at the time, you remained for us, my fellow countrymen, the model of patriot and soldier.

You are a person who is present, known, and respected in Poland. You have become the symbol of a heroic commander.

This reputation is richly deserved. I subscribe to it.

Mr General, the 50th anniversary of the outbreak of World War II is approaching. You and your soldiers heroically defended our motherland, and later fought for its liberation. I would very much like to welcome you on our Polish land in the days marking the 50th anniversary of the outbreak of World War II. I want to assure you that the Polish Government will receive you with all due respect, as a national hero. I believe that you should not have any doubts as to how your fellow countrymen, Polish society, the people of Poland will receive you.

What could I do for you as the prime minister of the Polish Government in order to make up at least in part for the wrongs and pain which you suffered in the past?

Very respectfully,

[signed] M. F. Rakowski"

"We are moved by the content, beautiful content of this message. It is a pity we had to wait for as long as half a century for transformations in our motherland which may begin to satisfy the people of my husband's cast. Please thank Mr Rakowski for this letter on behalf of the Maczek family.

Unfortunately, neither my husband nor I will visit our motherland, for health reasons at least. Our ashes will rest here, in Scotland, though in our thoughts we have always been present in Poland. Yes, indeed, at this moment you are receiving our testament. On behalf of my husband and myself, on behalf of the Maczek family I ask you to convey cordial greetings to our fellow

countrymen, as well as expressions of hope that our motherland will be open to all Poles regardless of their political convictions and place of residence."

### Moral Obligations

26000358 Warsaw *POLITYKA* in Polish  
No 9, 4 Mar 89 p 3

[Article by Stanislaw Podemski: "We Owe Them That"]

[Text] We cannot build a different future and regain the elementary confidence of the people without putting the past in order, without cleansing public life of the venom of the past which is poisoning it. The fact that the legal rehabilitation of the victims of Polish Stalinism was not completed after October 1956 is a truth which nobody dares question at present. The trial and conviction of the military leader of Polish socialists K. Pluzak, whose life came to a tragic and mysterious end in prison, a Polish prison as it were, is one of the recent cases discussed publicly.

To this day, Pluzak has not been rehabilitated, and a special appeal by the minister of justice is only now being prepared. How many people who have been wronged like that are still alive, and how many are already dead? Only their families and all of us can stand up for their honor. However, obstacles of a technical nature rise up on the way to rehabilitation.

Now, so many years later, not only the graves of many of the doomed no longer exist, but also court records containing the testimony extracted by coercion, and lists of charges cannot be found—these documents full of cynicism, perfidy, and distortion issued by shameless people. Someone's astute hand has removed from the archives these documents of shame and infamy of the Polish judiciary of those years. Only what remains in possession of the victims, their families, and researchers may now aid in the effort to undertake steps for legal rehabilitation. Meanwhile, court proceedings pose their strict requirements, restrictions, and rigors which are hard to satisfy many years later. Therefore, we should take the next step regardless of the complicated, difficult, and protracted court proceedings.

This year, a bold and radical move was made in the Soviet Union. By a single decree, 25,000 persons were rehabilitated who had been sentenced in violation of the elementary rules under the law by the so-called troykas consisting of the chiefs of the prosecutor's office, the party, and the NKVD [People's Commissariat of Internal Affairs]. The Soviet example could be used in Poland, because here as well thousands of sentences were burdened by the stigma of unlawfulness from the very beginning. For example, the Commission for Combating Abuses and Economic Sabotage, set up in 1945, which sentenced a couple thousand people a year to labor camps, did so without the participation of a defender, frequently proceeding from the records alone, in the absence [of the accused], based not on proven facts but on the assumption that the activities of

the person tried "pose the danger that economic sabotage will be committed." In this manner, many honest and hard-working Polish merchants, craftsmen, and producers lost their freedom.

The outstanding lawyer and PPS [Polish Socialist Party] functionary A. Dab alarmed the authorities of both workers' parties as early as 1946, accusing the commission of "great arbitrariness which at times creates the impression of lawlessness." This special commission operated until 1954, that is, even after 22 July 1952, when the constitution offered unambiguous assurances that the administration of justice in Poland would be the responsibility of the courts.

For example, should not a resolution of the Sejm or a law denounce these unlawful practices and give moral satisfaction to the victims of the special commission, insofar as the freedom lost then and the assets confiscated cannot be returned? The same applies to thousands of hard-working Polish peasants who were imprisoned for delays in the delivery of grain and potatoes; the gates of prisons and lock-ups were opened for them only by the amnesty of the spring of 1956.

For example, the long-awaited and now active Social Committee for Human Rights in Poland is of the opinion that it is precisely a law which should now give a fair evaluation of "the actions of the agencies of justice administration and prosecution which involved the implementation of the legislation unfavorably viewed by society, which introduced criminal penalties for the so-called whispered propaganda, violations of socialist labor discipline, and evasion of mandatory deliveries of agricultural products" (from an appeal to the Council of State).

Three further issues remain: releasing complete documentation on the crimes of Polish Stalinism, financial indemnity to the victims of the apparatus of lawlessness, and the responsibility of those who took part in it.

Among other things, the already quoted appeal by the Social Committee for Human Rights says: "We also consider necessary a complete and precise elucidation of the entirety of the acts of lawlessness which occurred before 1956 in the operations of the organs of public security, military information, the Ministry of Justice, the prosecutor's office, courts and the special commission, and preparation of a report on this issue, to be submitted to state authorities and released to the public. This is necessary in order to assert the historical truth about our times for posterity, and to make a fair judgment of the actions of a number of people guilty of committing a crime."

All such reports attempted to date (e.g., by Judge Szerer, or a document on the rape of the rule of law committed at the prosecutor's office) are incomplete and inadequate. Many crimes still remain hidden and secret.

I do not think that the tragic condition of the state coffers would make it possible to pay millions of zlotys to thousands of wronged individuals, though I obviously regret that this is not possible. Therefore, the financial extent of these equivalents (which are always dubious anyway) will have to be determined by the stern principle "cut your coat according to the cloth."

All criminal prosecutions are subject to a statute of limitations (excluding war crimes and genocide). This is

the case in the legal systems of the world, as well as in Poland, where even the most cruel crime is no longer punishable after 20 years at the most. Yes, murderers and butchers are among us, they are reaching their senior age, they are receiving retirement benefits and annuities, but the law cannot get them anymore. Such is the high price of time which shatters everything. This is all the more reason for us to demand that everything be done that can be done. We owe this to the memory of the victims, to the suffering of their loved ones, and the social sense of law and morality.



## INTRABLOC

### **Danube, Drinking Water Contamination Feared**

25000148b Budapest NEPSZAVA in Hungarian  
3 Mar 89 p 8

[Unattributed report: "One Hundred Barrels of Poison on Czech-Austrian Border"]

[Text] Austrian press reports concerning the storage of 100 barrels of unusually poisonous materials, including dioxin in the resort town Bad Deutsch Altenburg near the Czech border have raised concerns in Czechoslovakia. According to Austrian newspapers, the danger exists that once these chemicals filter down into the Danube, they will endanger the drinking water supply of the Csallokoz region. (We are dealing here with an underground reservoir which holds 10 billion cubic meters of water and is unique in Europe. After the year 2000 this resource is intended to supply about 40 percent of the Slovakian population, and certain southern areas of Moravia.)

Prepared for any eventuality, Slovakian specialists have begun regular, targeted laboratory testing of the Danube water. In the event that they find poisonous materials, the issue will be debated by the government commissioners involved with Czech-Austrian border waters, it was announced in Prague last Thursday.

## CZECHOSLOVAKIA

### **'Shadow Economy' in CSSR, Problems Evaluated**

24000093b Prague HOSPODARSKE NOVINY in Czech  
20 Jan 89 pp 8-9

[Article by Eng Vladimir Hanzl, Eng Marie Severova, Eng Vlasta Stepova, and Eng Jan Zurek, Economic Research Institute, Prague: "A Problem Not Only Moral But Also Economic"]

[Text] In his article "The Shadow Economy" (HOSPODARSKE NOVINY No 49/1988), Eng Martin Fassmann touched on the thus far basically taboo problem of the so-called shadow economy. Because it deals with a subject which—as is obvious from the responses that came in—received lots of attention, we are presenting here another partial look "behind the scenes," this time from the staff of the Economic Research Institute. They based it on several studies and particularly on inquiries made in selected sample households. These are basically the first attempts to partially map out this phenomenon of unquestionably great moral, political, as well as economic seriousness, an unhealthy symptom of life in our society. We are aware that the entire scope of the problem lacks a systematic investigation and that even those data which the authors arrived at are only estimates. Similarly, the conclusions and proposed solutions are in many respects debatable or even controversial, and do not always take into account all the necessary

connections. Therefore, even though they will certainly engender a very contentious response, they can serve to stimulate thinking and possibly even a search for ways to find a remedy.

If we leave aside the "dark" components of the shadow economy (such as, primarily, prostitution, procuring, drug trade, and outright thievery), we can point out as the basic cause of its existence in socialist countries the shortages of services and consumer goods. As a response to the unsatisfied demand, or possibly as competition to the expensive and poor quality offerings of the socialist sector, private individuals engage in undertakings which fill the gap in the market and in most cases make rather exceptional profits.

Another way of reacting to the shortages is a number of often necessitated activities of a "self-sufficiency" character, by which people try to ensure by their own efforts that their needs are met. Moreover, the gradually increasing bureaucratization of the system allows its individual components to misuse their key positions when granting various permits, securing a place in a school or in an attractive educational field, etc. Similarly, employees of trade organizations as well as of organizations which provide services for the public often use their position to improve their incomes in such cases where an inadequate supply makes it possible.

### **Which Economic Activities**

In literature there are a great many definitions and classifications of individual spheres of the shadow economy. In our study, we take as our point of departure statistical criteria and we consider as activities of the shadow economy all economic activities which are not (even partially) recorded in the official statistics. We arranged these economic activities into four groups:

- Productive activities performed by a household for the needs of the household. The main groups of such activities (roughly arranged according to their economic importance) are the following:
  - produce growing and stock-breeding,
  - do-it-yourself construction of apartments, weekend houses and cottages,
  - repairs and maintenance of housing stock,
  - making and upkeep of durable goods (for example, automobile repairs, furniture making),
  - making and upkeep of clothing and footwear,
  - personal services (for example, hairdressing).
- Productive activities performed for other people for payment. The range of the main productive activities is the same as in the above mentioned point. To



illustrate, we have quantified on the basis of our research the earnings from services rendered at the level of wages, exclusive of the value of materials used (in Kcs billions):

Produce growing and stock-breeding	8.1
Of that, the amount exclusive of earnings on the agricultural market recorded on the balance sheet of income and expenditures	3.3
Do-it-yourself construction of new buildings, maintenance of housing stock	6.5
Repairs of durable goods, including automobiles	1.4
Making of clothing and footwear	0.4
Personal services	0.2
TOTAL	16.2
Of that, the shadow economy (exclusive of earnings on the agricultural market)	11.8

Note: The above estimates are probably more likely to be at the lower end of the scale. They are calculated on the basis of opinions and data gathered in field research conducted by the Economic Research Institute in the area of paid services for the public in 1985.

In connection with the quantification of the productive sector of the shadow economy it is possible to estimate the real share of expenditures for services in the total cash expenditures of the population. If we add also the value of the materials used, we shall arrive at an increase in the payments for services approximately of Kcs 10 billion, i.e., altogether by 18 percent.

- Nonproductive activities, cheating on measures and weights, overcharging the customer. These activities have been famous since the Middle Ages and they are still in favor. A typical example of the black economy. It concerns mostly activities in trade with the kind goods that make it possible (types of stores: meat-processed meats, fruits-vegetables, fuels, gasoline pumps, delicatessen, pastry shops, fish-poultry). In store units of this type (we did not take into consideration the employees of the department stores Prior and purchasing centers of consumer cooperatives), 40,000 people are at present employed here in the CSSR. And service personnel in public food service, whose numbers reach almost 100,000, also have to be included.

We can assume—considering the standard of living of those workers which often does not correspond with their low official wages, and considering the kind of interest there is in being placed in such a position in the "job market"—that these activities can probably bring in on the average, including rewards in kind (meat, fruit, vegetables, alcoholic beverages), a monthly additional income amounting to half of the official monthly wage. The total is calculated at Kcs 2.5 to 3 billion a year. Again, these are more likely to be estimates at the bottom of the scale.

- Nonproductive activities—obtaining goods that are in short supply or services for payment. In this category of activities are primarily:

- imports from abroad for speculation,
- obtaining scarce goods or services from the network of the state and cooperative trade (including stores with secondhand books and antiques) and from Tuzex,
- exchanging foreign currency,
- machinations with housing stock, obtaining apartments, renting of apartments and recreational equipment,
- health care services, obtaining of medications,
- arranging for work services which are not easily available,
- reproducing, selling, and renting of video-cassettes,
- arranging for an attractive work placement—from a waiter's job to finding a place in the sphere of popular music,
- arranging for recreation at home and abroad and hotel accommodations,
- ensuring acceptance in high schools and institutions of higher learning, and in attractive educational fields.

Most of the time we have been unable to quantify how extensive the cash flows in individual activities are. But let us attempt it, at least in some of them.

As far as private import of goods from abroad is concerned, we should actually take into consideration only speculation imports for other people for payment. But it is difficult to differentiate their share statistically, and so we included also private imports for one's own need in the shadow economy. In 1988, about 500,000 people travelled to capitalist countries. If we assume that each of them brought goods in the value of Kcs 5,000 (which is the limit of duty-free imports), then the total amount of private import would be Kcs 2.5 billion. Obviously not all of them were able to bring goods in the amount of Kcs 5,000, but at the same time many of them exceeded the import limits. If we also take into consideration the possibility of smuggling, it is probable that the estimate of Kcs 2.5 billion is likely to be low. Moreover, the goods brought from abroad, because of their presumed attractiveness, often can be sold on the domestic market for a substantially higher price. As is well known, more than 80 percent of trips to socialist countries are directed to Hungary, the German Democratic Republic, and Yugoslavia, where one can purchase fashionable ready-to-wear clothing and footwear. During the time prior to the introduction of the new measures for duty on fashion goods, the share of these imports amounted on the average to 10 to 20 percent of the total goods purchased.

The total amount of private import (from capitalist and socialist countries) reached, according to our opinion, a minimum value of Kcs 5-6 billion, that is, 20 percent of all import trade.

### Impact of 'Under-The-Table Transactions'

In order to ascertain some of the impact of the shadow economy precisely in the category of "under-the-table" activities, the Economic Research Institute made a study in April 1988 of a group of 200 households. With respect to the specificity and a certain "sensitivity" of the subject, we did not use the usual statistical procedures, and the questioners did not have prescribed quotas of samplings. Even though among those questioned were included all groups within the population as regards age, profession, and geography, nevertheless some of these groups had a greater representation than their actual importance in the total population warrants. This concerns residents of large cities, households with the head of the household 30-49 years of age, and with a higher educational level. But in spite of these limitations, the inquiry afforded interesting insights into the area of "go-between activities" and "palm-greasing."

One of the first (and to a certain extent also surprising) findings was the 100 percent return of the questionnaires. All the questioners fulfilled their prescribed number of interviews without any great difficulty. The data in the questionnaires showed that people by and large talked openly about the problems being studied, they talked about their own experiences and opinions without inhibitions. Signs of refusal or unwillingness to provide concrete data appeared only sporadically. That can be also interpreted as meaning that "under-the-table transactions" are already so widespread and have permeated into all areas of our life that they are by and large considered to be an entirely common phenomenon, generally used, and that there really is no particular reason to keep one's personal involvement in such activities secret.

The respondents were asked if they (or someone else in their household) have ever used a bribe (gift, additional payment, reciprocal service) to obtain what they needed, in whatever area. Only 6 out of a total of 200 respondents stated that they never used this practice. The rest of the respondents described (sometimes in considerable detail) their own experiences or the experiences of members of their household. The greatest number of those questioned used this practice at least once in purchasing goods in retail (75 percent), in the second place according to the number of respondents was health care (49.5 percent), followed by a broad area of repair and other tradesmen's work (44.5 percent), and in fourth place is the purchase of automobiles, spare parts for motor vehicles, and visits to service stations (37.5 percent).

Then, with fewer respondents stating that they used at least once the above mentioned form of "reward," there are these following areas:

Community services (under this rubric we designate comprehensively hairdressing, beauty treatment, pedicure, restaurants, cleaning services, custom tailoring and repairs of clothing, cleaning, etc.)	19%
Activities connected with construction (procuring and delivery of construction materials)	18.5%
Obtaining various official actions and permits	18.5%
Allocation and exchange of apartments	13.5%
Education	13%
Transportation (excluding building materials—that is, primarily moving and transportation of furniture)	9%
Tourism	7.5%
Obtaining scarce books and magazines	6.5%
Obtaining tickets to cultural programs	3%
Purchase of cottages and plots	2.5%
Getting favors at work or a better job	1.5%

Some form of bribery in trade was used at least once by 155 respondents. To illustrate, we can arrange the individual types of purchases according to their numerousness as follows: color television sets, furniture, bicycles, freezers, textiles and clothing, washing machines, cosmetic preparations and other drug store goods, sewing machines, meat and meat products, refrigerators. In a prevalence of cases monetary bribe was used, the amount of which according to our information fluctuated mostly between Kcs 100 and 500. Gifts in kind are used significantly less often (boxes of chocolates, alcoholic beverages, flowers, cosmetic preparations), and reciprocal services were cited only in isolated instances.

The most frequent instances in healthcare were surgery, including childbirth and abortions. Here respondents also mentioned the highest amounts, mostly in single instances but also repeated. These fluctuate between Kcs 500 up to 5,000 per treatment. Another large group encompasses stomatological treatment—mostly for prosthetics or treatment outside a district. The majority of households in our sample stated that they are paying Kcs 50-100 for one tooth. Appreciable amounts, according to the results of our research, are also being paid for various types of special examinations, where of growing significance is repeated bribery (amounts predominantly of Kcs 100-500, quality alcoholic beverages or cigarettes).

In the case of repairs and work by tradesmen (exclusive of automobile repairs), the largest among the groups of activities where the word bribery comes into play, are repairs of household electrical and gas appliances. The most frequently mentioned amounts fluctuate between Kcs 20-50 per repair. The main reason for bribery was the securing of a more timely and quality performance of the repair. The second, almost equally frequent group of activities, was work by tradesmen (painters, plumbers,

heating mechanics, etc.). Here respondents mentioned very different amounts, depending on the amount of work performed. The last, and the least numerous group, were bribes for issuing various certifications or expert opinions from craftsmen (for insurance agencies, the District Enterprise of Housing Management, gasworks, distribution enterprise, etc.). Mostly amounts of Kcs 100-500 were mentioned.

As far as automobiles are concerned (purchase, repairs, spare parts), a group by itself is the purchase of an automobile. This concerns mainly new automobiles (Lada, Skoda, Olcit), but also purchases in the Autobaazar. As the results of our research show, bribes are given mainly for purchases outside of the waiting list, for being placed on the waiting list, or for the possibility to select color or special options. The amounts of money mentioned fluctuated mostly between Kcs 500-5,000, the largest amount mentioned being Kcs 10,000. The second group in this area is the purchase of spare parts and repairs in service stations. The amounts as well as rewards in kind varied considerably, but typical was frequent repetition and a more frequent incidence of reciprocal services.

Under the rubric "official acts" we included considerably diverse activities, such as obtaining various certifications, official determinations, permits, and documents. Here we noted various forms of bribery, from small gifts in kind to significant amounts of money. And characteristic for this area is the fact that in this instance the bribe does not secure goods or work directly, but, simply put, "paper." To our mind, this area is a significant proof of the negative shift in citizens' legal consciousness. As concerns construction, at issue are mostly the purchase and transportation of building materials and guaranteeing work on the construction. Specific amounts mentioned mostly did not exceed Kcs 500, however, even here repetition within a certain time period is typical.

Our research showed that where obtaining apartments is concerned, we are actually talking about two types of bribes. The first group includes payments to private persons when exchanging a small apartment for a larger one and the sum, as respondents stated, has been in most cases Kcs 10,000 and more. The second group includes bribes to employees of the national committees and apartment cooperatives to obtain a preferential allocation of an apartment. Here, too, the amounts were mostly in the thousands (Kcs 2,000-3,000).

In education, in order to secure a placement or better care in preschool facilities the appropriate employees, according to our research, were mostly rewarded by gifts in kind (boxes of chocolates, coffee, alcoholic beverages, flowers). But the results of our research also demonstrate that significantly high sums in the form of money or gifts in kind were noted as bribes for accepting children to high schools and institutions of higher learning (Kcs 500 to 10,000).

### Approaches to Resolutions of Some Problems

Proposals for resolving the problems of the shadow economy are arranged in accordance with the results of the primary research in the order of importance the individual areas have for our citizens. These proposals express only one approach and obviously they can become subject to discussion, same as the above mentioned indirect quantitative estimates. But direct, guaranteed valid information about the extent of the shadow economy can never be obtained. After all, they will be considerably influenced by those who compile them, by their personal experiences. A debate about these questions, contrasting different opinions on where to start, different empirical views, different proposals on how to proceed, is inevitable and necessary. And very timely. So that one day we can talk about most of the activities in the shadow economy only in the past tense.

### Health Care

It is something of a surprise that in a health care system which is available without charge to all the citizens of the republic, health care occupies a significant position in the shadow economy. The core of the problem is not the actual availability of the services, but the interest to create a close contact with the care giving personnel and thus gain commensurate care (with the feeling that I have done the maximum according to my own conscience), and not only for the present but especially for the future. In some cases, the idea is to circumvent the necessary administrative steps (for example, a recommendation of the district physician for a special examination).

We shall only indicate the possible solutions: it concerns cutting back on some of the bureaucratic connecting links in the relations between the patient and the health care agencies. We have in mind, for instance, stomatology—differentiating in the "selection" of dentures, either free standard ones, or special ones for payment (similarly as in the case of eye glasses), and rendering of diagnostic services in special establishments for payment. In our opinion, it would be also appropriate to think about allowing private practice for physicians and stomatologists (including retirees).

### Services

As far as services paid for by the public are concerned, the areas (according to the research results of the Economic Research Institute) with the lowest degree of satisfaction are: repairs of electrical appliances, work connected with the upkeep of the housing stock (brick-laying, plumbing, etc.), sewing and repair of clothing and footwear. The decisive way to improve the availability and quality of these services under our current conditions is by individual entrepreneurship of any kind, for example, business leases, engaging people outside of regular work duties, development of small cooperatives which would include only a few people. Other possibilities can be seen in making the activities of the District

Housing Management Enterprises and local small-scale production (by producing cooperatives and enterprises of local management) economically efficient, primarily by reforming the system of rewards which would be unfailingly linked to output.

Economic theory is not altogether clear on the subject of individual entrepreneurship under socialism. In order to develop it, it will still be necessary, despite the recent advances in this area, to find solutions in practice to a number of unresolved problems:

- supplying with materials—ensuring access to wholesale and possibility buying at discount;
- providing advantageous credit for furnishing a workshop, purchase of machinery and equipment, and for supplies;
- implementing a tax system which would not have a restrictive impact, but would motivate (while maintaining a consistent institutional control over tax returns);
- allocating premises for stores, and increasing flexibility in the management by the national committees of premises not intended as living quarters;
- social security—medical, old age pensions;
- publication of a “manual” which would specify in detail for those interested in providing services what steps are necessary to obtain permission to engage in those activities;
- possibility to create professional guarantees—tradesmen’s guilds.

### *Trade*

Our initial research clearly documented a strong connection between “palm- greasing” and shortages; in first place among “additional” payments are products with a long history of shortages. It is obvious that this type of shadow economy can be abolished only in the long-term perspective, that it will be reduced to the minimum only when there is a market equilibrium, both overall and structural.

The solution of the basic problems of economic equilibrium cannot be achieved without making the domestic trade economically efficient. The key prerequisite in this respect is the restructuring and objectivization of the scope of the economy in such a way that trade will attain sufficient conditions for an all-around development. The creation of competition in the domestic market (from state enterprises to cooperative enterprises to individual entrepreneurs, not only domestic but foreign as well) should also play an important role.

Another important factor ought to be changes in the price policy, particularly the removal of the disconnection of price levels—wholesale prices, prices in foreign trade, and retail prices. At issue is, above all, a basic restructuring of the turnover tax, the typical elements of which ought to be tax rates, the consolidation of rates into a few groups, and calculation as percent of retail price. Such a restructuring would significantly influence price relations in the market and contribute to a greater connectedness between the structure of consumption and the structure of costs in the production process. In restructuring prices on an economic basis we also cannot leave aside the question of price relations among the individual CEMA countries, and the question of the noncommercial rates of their currencies.

Central regulation of the market processes requires that adequate attention be given to the behavior of the household, that the possibility for accommodation on the part of the consumer is not underrated, who, in searching for ways to satisfy his needs can choose means which are not optimal from the national point of view. “Maximization of benefit” in the consumer’s concept often means to search for substitute solutions in the form of substitute consumption, self-sufficiency (own production of foodstuffs, clothing, furniture), legal as well as illegal private import of scarce goods from abroad, but also corruption (in the form of cash as well as reciprocal services) in obtaining scarce consumer goods.

It can be assumed that at present the above mentioned forms of substitution, which exist apart from the planned economy, are growing. All centrally enacted measures, whether they concern wages, social security income, savings accounts, consumer credit, retail prices, deliveries of goods from production or import, tariffs and foreign currency policy, should be made with this periphery of the planned process in mind.

The consumer, on the other hand, should gain an institutional defender of his interests. Within the framework of the National Front, there should be established an organization for consumer protection, which besides its advisory role should also provide legal assistance. The status of the consumer would also benefit from the publication of a purely consumer-oriented magazine, which would, besides objective tests of products, also publish information of the legal and advisory nature.

The solutions mentioned thus far are targeted at market equilibrium and are connected with an overall restructuring of the life of society, where a considerable role should be played by a change in legal consciousness as well as a “renewal” of ethical and moral standards. The recommendations for the short term can resolve only individual facets of the shadow economy in the area of trade. It concerns primarily the following measures:

- Carefully monitor the scarce types of goods, or items with a significantly declining level of availability (for



example, by testing speculative trends and the situation in the market), and ensure emergency imports before the shortage of a specific product makes it a profitable "article" of the shadow economy (for example, color television sets, freezers).

- Broaden the concept and effectiveness of the use of foreign currency earmarked for import of consumer goods. Consider the possibility of allocating foreign currency resources to business organizations on the basis of competition—i.e., allocate foreign currency to those organizations which demonstrate the optimum use for the import.
- Link the policy in the area of consumer credit more sensitively to the actual situation on the market.
- Increase the setting of prices by agreement between the producer and the consumer for those products which are not crucial in terms of satisfying the basic needs of the population.
- Consider the possibility of introducing the leasing even of retail businesses, or make possible individual undertakings in clothing, footwear, fancy leather goods, souvenirs, bakery products.

A specific area of trade is restaurant food service, which has been unprofitable for a long time. Sober estimates show that the actual output of public food services could be as much as 10 percent higher than is officially documented.

Food service in restaurants is not, from the point of view of the consumer, and particularly from the point of view of causing a burden on his family budget by expenditures in the shadow economy, such an acute problem. In this area shortages appear relatively seldom. More at issue are conflicting financial interests between employees, the enterprises of public food service, and the state budget, where some categories of employees gain through illegal means a disproportionate share of the profits.

The increases of rates for trade expansion being considered, including calculated surcharges for restaurant food service, show the urgency of a definitive solution of the problem, currently already known, of bringing one's own merchandise to stores. It would be worth considering using the experiences with the competitive system which is being applied in Hungary, where the operators of businesses make security deposits. However, as long as the conditions of business leasing would be too stringent and not very advantageous, it cannot be expected that there would be a great interest in it. The resolution of this problem is necessary also from the point of view of tourism, which in Czechoslovakia is one of the branches with the best prospects.

A specific—and the most criticized area of the shadow economy—is black market in foreign currency, the buying and selling of foreign currencies or domestic money

orders. At issue is not only the moral aspect of this phenomenon, the break-up of the work morale, a negative influence on the upbringing of children, but also the poor image of a citizen of a socialist country that it creates. In view of the expected increase in tourism with advanced capitalist countries in the near future, these problems have to be resolved on a priority basis, otherwise there is the danger of a breakdown of the currency system. Experiences from the Polish People's Republic are a warning in this respect. The open questions, where many contradictory opinions exist, are several: the existence of Tuzex and Tuzex money orders, mandatory currency exchange for foreigners arriving from capitalist countries, the exchange rate of the Czechoslovak koruna, or rather the existence of several exchange rates that baffle the foreigners. A basic solution in this area would be to make the tourist exchange rate of our koruna against the free currencies realistic.

The positive and negative aspects of the existence of Tuzex ought to be critically evaluated. In the event of its possible liquidation, the creation of special stores with imported consumer goods at higher prices would preserve the possibility to offer Czechoslovak citizens working in foreign countries the purchase of attractive merchandise. The incentives for workers in territories where convertible currencies do not exist, would be in the form of higher rewards in korunas.

We did not take up other important (identified in field research) areas of the shadow economy such as education, housing management, relations between institutions and citizens. In these areas, too, there is the relatively sharply focused question of renewing the legal consciousness of the people, that is, being informed about what a citizen is entitled to and what are the obligations of the institution. Even in this subtle area there is possible a certain slight shift that would help to resolve the problem of the shadow economy.

## HUNGARY

**Soviet Reform Affecting Joint Enterprises**  
*25000121a Budapest FIGYELO in Hungarian*  
9 Feb 89 p 9

[Article by Gabor Joo: "Hungarian-Soviet Joint Enterprises: Economic Environment in the Soviet Union"; first paragraph is FIGYELO introduction]

[Text] How did the economic environment change for Hungarian-Soviet joint enterprises domiciled in the Soviet Union as a result of the evolution of the economic reform process? What motivations may businesses have to establish joint enterprises? These questions are answered by the author of this article.

The management conditions of existing and future Hungarian-Soviet joint enterprises are fundamentally influenced by the new Soviet enterprise law, as well as new and amended old regulations which continually appear

in the Soviet Union. This, in addition to a decree applicable to joint enterprises promulgated by the Soviet Council of Ministers. Taken together, all these laws and decrees constitute one of the very important factors of the economic environment facing joint enterprises domiciled in the Soviet Union, as well as Soviet organizations which could become partners in such joint enterprises. In a different context, joint enterprises are the forward pointing elements of Hungarian-Soviet economic cooperation. They may play an important role as relationships develop.

The economic environment of Hungarian-Soviet joint enterprises cannot be dealt with in a manner independent from actions aiming for the resolution of the 1-2-billion ruble Soviet liability that is likely to occur in the late 1980's, from the increasing competition among Hungarian exporters for trade contingents, from the selective reduction of excessive budgetary subsidies for exports, from the tightening Soviet market demand, from the evolving change from commodity contingents to value contingents, and from the fact that in the long run, the sale of goods will increasingly burden the enterprises, and not the state management organs.

### Motives

In establishing joint enterprises Hungarian enterprises may be motivated by a hope for stabilizing and expanding the already existing Soviet market share, while Hungarian businesses not involved in the Soviet Union may be motivated by the fact that they may expand their activities to new business territories. By virtue of the Soviet participant's knowledge of the sales territory, his own procurement and sales network, and of a certain interest he has in the outcome, he can promise to seek out the products which will serve to offset [Hungarian deliveries]. At the same time, in order to realize the Hungarian partner's perceptions, the establishment of a joint enterprise requires excess investment in the form of capital outflow, increased risk taking until such time that the capital investment and interest are repaid, and let us admit: for greater commitment than what could be expected in the course of already known, traditional buying and selling processes. The combination of inducements and of Hungarian opportunities (strong capitalization, entrepreneurial spirit, etc.) has produced modest results thus far. The number of licensed and established Hungarian-Soviet joint enterprises domiciled in the Soviet Union is a single digit figure.

The practice followed by the Soviet Union until 31 December 1987 was as follows: after deductions (charges for pledging resources, interest on loans taken, charges for various resources, payments to the [state] budget, etc.) Soviet state management organs satisfied the requirements of the enterprise centrally, on a standard basis, tied to various indexes (fixed and revolving funds, other investments, wage and reward funds, etc.), then withdrew the remaining profits. Without commenting on the negative features of this method (tensions resulting

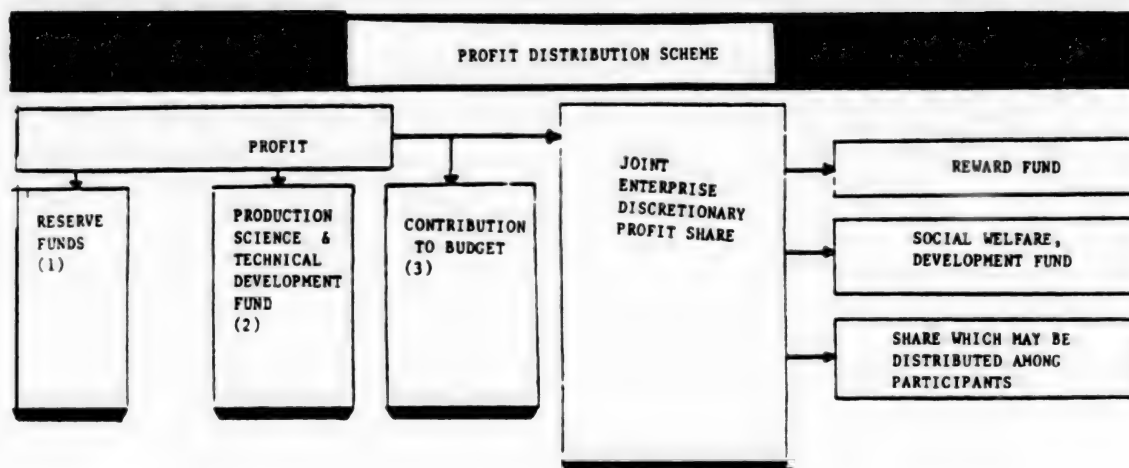
from different [production] standards set per enterprise, low level profit motive, etc.), on the basis of the two models authorized by the new enterprise law it may be established that a favorable move [sic] was made, as compared to previous years. But from an economic standpoint this may mean only the beginning of reform changes. Under the new system the state no longer withdraws profits, it enables the enterprises to independently utilize a certain part of the profits. In the first model (the standard method of distributing profits) only premiums, rewards, and means serving social and developmental purposes are subject to the proceeds [collected by the enterprise]. On the other hand, the wage base depends on achievements only in a very indirect manner. Particularly the latter explains why the bulk of the enterprises chooses this method. On the other hand, the second model (the standard method of distributing income) the funds needed for paying wages must result from production.

Along with a stringent pricing system and fixed prices, profits can be increased only by [increasing] quantities and shifting product choices in favor of more profitable products. Depending on the composition of orders, the mandatory fulfillment of orders placed by the state can easily turn the enterprise into a loss operation. Officially, orders placed by the state cannot consume 100 percent of an enterprise's capacity, and products left out [sic] from orders may be sold by the enterprise at contract prices and to partners freely chosen by the enterprise. On the other hand, an enterprise's supply of raw materials and basic materials depends largely on the fulfillment of orders placed by the state. This is so because of the undeveloped state of the wholesale market for the means of production.

The law on cooperatives grants greater independence to organizations under its jurisdiction both in regard to the role of higher organs and interest motivation. Cooperatives still must face a series of obstacles which are the results of [an unfavorable] perception. The effects of the law are expected to be felt only in years, but the strong business motivation and stunning business skills of already established cooperatives deserve attention.

### Greater Degree of Freedom

Joint enterprises have a greater degree of freedom to formulate their profit motivation system than state enterprises. After replenishing reserve and development funds, remaining enterprise profits are subject to tax. The tax rate is 30 percent. (see chart below). During the initial two years of operation the enterprise is tax-exempt, or rather: a 20 percent tax is to be paid after the profit share distributed and paid to foreign participants outside [the Soviet border] by the managing organ of the enterprise. Joint enterprises are free to enter into agreements regarding wages and other in-kind provisions paid or provided to foreign employees, but as a result of different wage levels, special solutions must be found for the compensation of Hungarian work associates.



(1) to be replenished in five years at least to the extent of 25 percent of the founding capital

(2) the enterprise may determine the method of replenishment independently

(3) 30 percent of the remaining profits

Quite naturally, the fact that the various players are result oriented is insufficient in and of itself for successful business functioning. One has to be very familiar with the contents of various common management forms, with the legal issues related to establishment, the features of the enterprise internal management structure, the framework of legal entities and their effective extent in the Soviet Union, the legal status of assets, the external and internal markets for trading, the investment systems, regulations pertaining to external economic relations, the way prices are established, the practice of credit management, the order in which foreign currency can be exchanged, tax rules, and the manner in which auditing and reporting is to be accomplished. The requirements of basic technical-economic foundation materials must be harmonized with the possibilities, and one should not neglect the protection of industrial property, labor law issues, and the system of social welfare provisions either. In the final analysis, the method by which disputed issues are resolved is also essential. A collection of works published recently in the Soviet Union (Sovmestnue Predpriiatja—izd: Juridicheskaja Moscow, 1988) contain detailed appendices which should suffice for the evaluation of Hungarian interest. One must observe however, that industrial branch stratification in the Soviet Union is far greater than what evolved in Hungary, and thus, because of materials supplies, internal prices and peculiar features of selling one must by all means become acquainted with the standards of specific industry branches.

One may reach relatively independent agreements in regards to pricing, the distribution of market shares, regarding part of the foreign exchange issues, etc. These

agreements are based on joint recommendations made by the participants, and in consideration of special transactions and mechanisms (the choice of commercial channels, internal or foreign trade prices, the designation of sales markets, and the cooperation of managing organs). The forecasting of different inflation rates in the two countries, and consideration of inflationary effects deserve special attention. The above must be reflected with circumspection in the founding charter of joint enterprises. This is so, because changes in the founding charter require almost as much preparation as the acceptance of the original charter, which was sanctioned in the framework of an agreement between the two states. The provisions of the interstate agreement have more force than documents contained in internal regulations, thus, in regard to substantive matters, the provisions of interstate agreements govern.

### Too Little by Itself

Individual concepts that pertain to the protection of investments, and which are regular parts of agreements with capitalist countries are also parts of national laws and of bilateral agreements between the Hungarian and the Soviet governments. These provisions cover the status of foreign investors, the sanctioning of the taking possession of investments on various legal grounds (e.g. nationalization, confiscation), and guaranties regarding the transfer of payments, profits, dividends and shares. More than a dozen provisions of joint enterprise decrees state that the rights and duties applicable to Soviet businesses also apply to joint enterprises, and that in

some instances joint enterprises enjoy priority. The latter include investments and supplies provisions. In practice, the enforcement of the law faces a number of difficulties. At the same time the legal treatment of central state intervention, such as the effects of price reform on prices, remain unresolved. In this regard, at least some assurances for the period in which expected returns on investments materialize could increase inclinations to establish joint enterprises. Articles and writings which deal with regulations concerning Soviet joint enterprises bring up the need for a law on stock corporations and for reduced taxes. Similarly, one frequently reads about increasing the share of property owned by foreign participants, and about desires to take action to facilitate convertible currency transfers.

I will note here that Soviet laws do not rule out the foundation of joint enterprises involving partners from other socialist and capitalist countries. In such instances, however, the special regulations applicable to Soviet-capitalist enterprises must be applied.

Despite the difficulties, the number and rate of establishment of Soviet joint enterprises involving various enterprises and firms operating in Soviet territory (12 enterprises were registered in October 1987, 23 in January 1988, and not too long ago their number exceeded 100) suggests that the opportunities offered by the Soviet Union are attractive also to Western firms. This is so even if in several cases new joint enterprises came about in areas which are not really capital or investment intensive.

Accordingly, even in light of the above mentioned competition it is not irrelevant to realistically count on the fact of established Hungarian-Soviet joint enterprises, [even if] the situation is filled with contradictions, but which nevertheless beholds the hope for progress. This is so [irrespective of whether] the motivating force for preparedness to cooperate is the processing of raw materials available on the Soviet market, the jointly initiated building of relationships with the developing countries of the Far East, the broadening of the market for intellectual products, or cooperative activities which may be expanded through the outplacement and operation of processing technologies.

**Problems in Privatization of Commerce Described**  
25000149 Budapest FIGYELO in Hungarian  
2 Feb 89 p 3

[Article by Gyorgy Matolcsy and Ferenc Szucs: "To Privatize, but How?"]

[Text] Ever since about forty years ago, when our economic decisionmakers held far more power than was either rational or manageable, numerous mistakes with negative effects were made. The most painful among these were the cases when undoubtedly correct concepts were followed by implementation burdened by allowances and compromises or, at the other extreme, executed in an absurdly strict manner, thus giving the

concepts themselves a bad reputation. We could cite long lists of examples for all of these practices. As we watch the professional articles and the partially hidden intentions of the government, we see the threat of more mistakes similar to the past ones.

By now our professionals have more or less arrived at a consensus, according to which the wave of nationalization in 1948 went far beyond the limits of rational thinking. This is especially true when it comes to commerce and the restaurant industry where the integration of smaller and larger units, the differentiated supply meeting European standards and its requisite, economic competition, cannot be imagined without reestablishing the rational proportions among enterprises of varying size. We must begin to privatize our commerce, but how?

A concept was recently introduced in the press (interview with Attila Kiraly, NEPSZABADSAG, 23 December 1988), proposing a radical decentralization of commercial firms, the sale of stores and restaurants, the elimination of enterprise centers (or their transformation into simple service-providing firms), and the creation of a new commercial bank to implement the privatization process and represent state property. No doubt about it, it is a spectacular program that, in addition to privatizing the overnationalized retail merchandising and the restaurant sectors—thus promising the creation of a more rational structure—also promises additional profits for the state budget by selling state properties.

However, one may pose the question: How does such a campaign (although this word is explicitly avoided in the cited article) fit in with the demands of comprehensive reform in property relations? Will it bring the desired results, could it contribute to the elimination of budgetary worries as well as the creation of a commercial life having more flexibility and a healthier structure? In our judgement, the answers to these questions are positive only in part or not at all.

**Who Could Be the Proprietor?**

One of the key questions is undoubtedly this: Could a campaign of any kind be successful in implementing the state's desire to bring about privatization? If in the near future we were to sell the multitude of commercial units (and in this case the word multitude is no exaggeration, since the enterprises involved usually operate networks made up of hundreds of units), who would be the potential buyers?

There is no disagreement that there are two groups of investors who could come under consideration. First we must mention the private entrepreneurs: Those among them who are interested in this sector are already active in contractual and lease-type operations. Could they be the ones who would supply the huge amount of capital required for wholesale privatization? Even the cited article observes that "successful investors withdraw their capital and do not invest in the network." Since we completely



agree with this observation, we question whether the opportunity of obtaining property would bring fundamental change to this situation. We can hardly expect to gain the presently shaky confidence of these investors to the degree that they would finance the potential campaign.

For similar reasons, it is also illusory to refer to the interest of foreign investors. It is highly unlikely that a great many of them would participate within the proposed short periods of time. Attracting these foreign investors to this sector, in addition to being unrealistic, is also theoretically debatable. It is doubtful that large amounts of foreign capital should be invested in the area that performs primarily domestic service, where (with the exception of tourist facilities) they will earn profits only in forints. At the same time, it is guaranteed in this area as well that the profit of the enterprises will be removed in hard currency.

Nor can we avoid mentioning the other state investors from outside the sector, who would use their free investment resources to enter this sector. In view of the fiscal conditions prevailing and the typical economic motivating factors, their participation is at least questionable.

We must also mention another possible consequence of a potential privatization campaign. The great demand for attracting foreign capital (expected to develop within the near future) could also mean that valuable segments of state property will find buyers at far below their real value and numerous valuable enterprises will be squandered in exchange for relatively modest earnings for the national treasury. At the same time, in the absence of suitable demand, the complete privatization of certain enterprises tied together in networks simply remains illusory. And of course, without the consistent implementation of the program, we cannot talk about the elimination of enterprise centers. By contrast, some of the currently prosperous enterprises could find themselves in impossible situations by losing some or all of their best and most competitive stores and restaurants they presently lease from local councils. Getting stuck with the far less profitable and unmarketable portions of their networks, they would find it impossible to operate efficiently. This would lead to the bankruptcy of numerous taxpaying enterprises and, finally, indirectly to the disappearance of budgetary gains. Such "fragmentation" could lead to the creation of near-defunct enterprise that only subsidies could keep alive. On the other hand, if we are talking simply about certain selected enterprises purchasing the shops and restaurants presently leased from the local councils, then we should not refer to this as privatization, but as a technique to increase earnings based on pure budgetary considerations instead of taxes.

We may be justified in asserting that a potential campaign of privatization, similar to the many other great undertakings of the past four decades, would end up producing far more modest results than expected.

Moreover, if privatization were to be augmented by subsidized credit sources, that would reflect a decidedly

questionable change of priorities in our economic policies: It would take credit sources away from developing the processing industries and the deteriorating manufacturing infrastructure. In addition, because of subsidized credit conditions, it would alter investment calculations; once again devaluating conditions and growth circumstances for developed industries, food processing and the infrastructure. Hungary's industries will not be made competitive by the privatization of tobacco shops, but by channeling capital and credits to the developed processing industries and their infrastructural auxiliary branches. Applying the concept of privatization first to the spheres of retail commerce and the restaurant industry is another example of "avoidance;" not only does it miss the target, it also hides it. We must realize that the complex edifice of an economy never has tolerated crude intervention, and it does so even less today, and it can be pushed toward even the best goals only using more refined methods. Otherwise, it would be impossible to avoid results differing from expectations which, in addition to the moral damage of giving a good cause bad name, also cause material losses in the end.

Such losses are multiplied by the effect derived from potential residential investment! After all, why do the local councils need to cancel their lease contracts and sell their shops, restaurants, etc.? Because there is less in the budget earmarked for their development and operational goals. Why did the designers of the budget decide to reduce these amounts? Because they wish to avoid further increase in the deficit and want to reduce budgetary deficit. What is the cause behind budgetary deficit? Basically, the expenditure of about 200 billion forints for enterprise subsidies. Why do these state enterprises have to be subsidized?

#### **Pseudo-Action, With Side Effects**

In the economic sense, we can give an answer that lacks subtlety but reflects substance: because the enterprises of the state sector have not followed the course of renewal. This, we feel, reveals that privatization efforts concentrating on retail merchandising and the restaurant industry are a mere token gestures, introduced instead of reforms to transform the system of budgetary, proprietary and governmental institutions. The outcome could be similar to that of the foreign loans received after 1973: It was bad economic policymaking and a mistaken economic model that, in the absence of a domestic industrial environment, reproduced (and increased) economic structures, enterprises and capacities that are unable to adopt. For the same reason, such a token gesture also has another fatally threatening "side effect."

If we discard large-scale privatization efforts, accelerated by administrative means, as a solution, then how can we initiate that process which, in fact, is still necessary? We can completely agree with the intention to have the enterprises reorganize segments of their networks, whenever conditions exist for such action, into limited liability firms (elements of which have been enumerated in

the article cited above). One way to accomplish this is to transform a given unit into a partnership with limited liability in such a manner that the enterprise contributes to it a segment of the business it owns or leases. In addition, the entrepreneur operating the business could also contribute some capital, and other external entrepreneurs could also contribute to the renewal of the business, and thus acquire a share in it. In cases of larger units, such as hotels, we could recommend shareholding firms instead of limited liability companies. In this manner, we could gradually reach the time when the enterprise center (in addition to providing certain services on a business basis) would exercise control only as a shareholder over its network that will have been reorganized into independent firms.

The process could also be initiated from above. In that case, the entire enterprise or a portion of it is first transformed into a shareholding company, one of its founders being the enterprise center (preserving its status as a state enterprise, but turned into a small property-handling organization), the others being the major internal and external partners of the enterprise, including representatives of the management from the center and the network.

At this point we should make special mention of the local councils, which provide "a place" for a significant portion of the retail merchandising and restaurant network through leasing. Could it be that local councils are the ones genuinely interested in privatization, since through it they could obtain money to augment their tight budgets? This would represent only a one-time extra income, and if we suppose that they would "set aside" some of their real estate properties for the coming years, those would be eventually used up; what is more, the disappearance of lease money would reduce the income of local councils. In other words, local councils could easily become trapped by a forced campaign of privatization.

However, if the local councils acquire shares of the commercial firms by contributing to them some of their real estate properties, then, instead of receiving a one-time income, they could receive continuous earnings, depending on the construction selected by them. This way, they could ensure long-range certain secure income for their budgets. Their freedom from risk would be guaranteed by the opportunities contained in the laws concerning associations. Thus, for example, there is an opportunity to issue so-called priority shares, which guarantee shares for their owners. (In exchange for this, of course, they would have to give up their right to vote, but in view of the fact that councils are not business organizations, this is not a truly important factor.)

#### In Two Steps

The basic case for the construction we propose is one in which an entrepreneurial-commercial center, preserving its status as a nationalized enterprise, transforms itself into a property-management organization, thereby becoming free of operative economic functions and

assumes responsibilities limited to ensuring that the property in its care earns the greatest profit. The only way this can be accomplished is if the property in question is represented in property shares obtained by economic associations. That is, the creation of an organization to manage properties presupposes the wholesale or partial reorganization of the network into economic associations. Such associations can have as their members those who work there, the local councils and external investors. However, the process cannot be initiated by orders from above, and can only be based on self-development; otherwise, the enterprises make their countermeasures followed by distortions.

There is also the question of the future of the state's property management organizations, the former enterprise centers. Subsequent to the start of a genuine (that is, not simulated) process of proprietary integration within the network that performs the actual economic activities, and the achievement of economies of scale, the operation of these organizations (as managers of property) will also be directed to ensure maximal profits. This will be aided by the fact that instead of working with the capital embodied in the given units, these organizations will be working with more liquid representations of said capital, expressed in stocks and shares.

In spite of this, knowing the law (now being drafted) concerning transformations and taking into consideration further results of theoretical economic debates about the rational management of state properties, the second stage of this process could mean that the managers of properties could also be transformed into associations. During that stage of development, state organizations managing properties could become shareholding associations that would continuously appreciate in the capital market. The risk of subjective decisions will be filtered out and the management of properties will fall under the control of the market.

We may be mistaken as well as others. The correct methods, the order of steps and the potential advantages and disadvantages of privatization can crystallize only as the result of a debate in which all interested parties (government organs, commercial and other firms, banks, private entrepreneurs, consumer protection agencies, et al.) are present. After all, it is possible to manufacture reforms behind closed doors in secret meetings, but (and, unfortunately, we can state this on the basis of our own experiences) may higher powers protect us from the consequences of such eventuality.

**'Reprivatization' of State Enterprises Critiqued**  
25000120b Budapest FIGYELO in Hungarian  
9 Feb 89 p 3

[Article by Ministry of Industry officials Henrik Auth and Janos Krokos: "Who Owns State Enterprises—Suspicious Transformations"]

[Text] Who is managing state assets? This question is not merely theoretical, and does not pertain only to economic policy or to regulations. The authors of the

following article, Henrik Auth and Janos Krokos, are faced with this question in the course of their daily work at the Ministry of Industry: who can sell a state enterprise in Hungary today if there is a willing buyer, alternatively, how can the so-called lead enterprises guaranty the preservation and growth of state assets?

Although new management forms (enterprise councils, general meetings) have severed enterprises from state management, these enterprises did not prove to be more efficient in terms of managing their properties. In these [new] forms of ownership, operations and employee functions are mixed. The most remarkable consequence is that none of the actors are fundamentally interested in preserving and increasing assets.

### The Company Illusion

The issue of transformation which is evolving in the framework of present-day regulations is far more contradictory. The present institutions of management and the law have transferred very important authorities to enterprise management. This was a natural consequence of a process in the framework of which the earlier method of state direction of state property could no longer be sustained, and which paralleled the gradual and slow expansions of market conditions.

Special attention should be paid to the fact that decisive authorities of ownership were given not only to collectives, but also to enterprises that were subject to management by the state.

Based on the enterprise law, the prevailing management of an enterprise has the right at any time to sell parts of its assets, and to participate in a company. This authority, which otherwise would seem to be a natural process, enables a peculiar process of transformation in which the quasi owner role of the present managerial stratum of enterprises (which thus far evolved slowly and was rounded out after the severance of enterprises from the state) gains legitimacy. This process has been accelerating ever since the beginning of last year, while neither the economic, nor the social implications of the process were explored. This gradual distancing of state property from governmental management is leading to a peculiar "reprivatization," for lack of a better word.

Many feel that this spontaneous process is an autonomous movement which is capable of producing a new, functional form of ownership. We are not at all convinced of that, moreover we feel that illusions tied to the future role of business organizations, the over-estimation of these forms will lead us down the wrong path, and will not help in resolving the fundamental issues. An intensive economic and sociological analysis should reveal what motivates the rapid transformation of enterprises, what the social milieu of transformations is, what consequences cross ownership holds in the new reorganization of a social stratum, and the relationship of the latter to property owned.

In the recent past many enterprises under the jurisdiction of the Ministry of Industry—Medicor, Ganz Danubius, Budaflax, the Soroksar Foundry Work, the Chair and Upholstery Enterprise, the Toll Manufacturing Works, the Tool Manufacturing Enterprise of Csepel Works, Videoton, the Screw Industry Enterprise, MOM, (and certainly other industries too) initiated transformation processes to become business companies. One of the characteristics of the transformations is that large enterprise headquarters are designated as so-called managing enterprises, while factory units and individual functional organizational units become stock corporations or limited liability corporations so that the package of stocks which represents the assets contributed to the business organizations are administered by the managing enterprise. These transformations take place as authorized by the provisions of the 1875 Law on Commerce, pursuant to Section 5 of the Law of 1930 concerning limited liability corporations and silent partnerships, as well as on the basis of the Enterprise Law. The state is in no position to influence these types of transformations, because in form, the managing enterprise remains a state enterprise.

Doubtless, transformations produce many advantages. The autonomy of the earlier factories and factory units increases substantially, primarily in terms of current production. For this reason, at least to the extent that the general milieu provides inspiration to this effect, their profit motive increases as compared to the earlier situation, and so does the activity and initiative of the managerial stratum. Endeavors by the managements of thus independent firms to effect internal reorganization, to place professionalism rather than hierarchical execution of functions into the forefront, is noticeable. These statements are no longer hypothetical today, their truth was proven in specific actual examples.

In contrast to these positive experiences, a number of negative features may be discovered.

Transformations are formalities, in the sense that they do not involve the attraction of capital. Large enterprises subject to transformation declare in advance that they intend to hold on to a majority of the shares, but one should recognize that there is no outside interest in their share of property anyway. In every instance, the value of the property managed by the managing enterprises exceeds the value of stocks or 90 percent of the founding capital.

Even if the large enterprises taken together prove to be loss operations, the provisions governing transformation ensure the survival of managing enterprises which were formed out of large enterprise headquarters. In this way, through transformation, the burden of production placed on these enterprises is decreased.

In many instances one cannot expect managing enterprises to regroup capital outside of the enterprise for the financing of more efficient purposes. One should rather



assume that they are endeavoring to sustain the earlier large enterprise, even if this takes place contrary to the best interests of efficiency.

These transformations also hinder the influx of foreign capital at considerable levels. This is probably so because a large part of foreign capitalists would be willing to invest significant capital in Hungary only if they could own a majority of the stock. In contrast, it is the declared intent of managing enterprises to retain a majority of the stock, and it is obvious that also their interests so dictate.

#### **Owners Who May Be Relieved of Their Duties**

Nevertheless the decisive point is that by virtue of transformation, larger enterprise headquarters legally declare, and manifest that declaration in the form of securities, that they are the owners. Thereby they have established a qualitatively new property, which has two main varieties. In one of the varieties the established center remains under state management. In such cases, as a matter of formality, the linkage to state property is stronger, while in the other instance, in the case of enterprise headquarters under the direction of enterprise councils, the linkage is weaker. It would be a mistake, however, to examine this linkage strictly from a legal point of view, because on the basis of emerging power conditions, these managing enterprises may be regarded essentially as independent owners.

It is a separate interesting phenomenon from the standpoint of property, when an enterprise council remains part of a managing enterprise which was carved out of autonomously managed enterprises. In such cases roughly half the workers at the managing enterprise may become members of the new enterprise council, and the "who's the owner" question may be answered on the basis of accurate knowledge of personal interests, and not on the basis of law.

On the basis of all the above, we are convinced that transformation processes evolving in these days are not legally conducive to the more efficient operation of property. Proprietary conditions which force the players to manage more efficiently will not evolve from the ownership side spontaneously. The spontaneous quasi ownership acquired by the managerial stratum cannot be viewed as final for a long time to come. Accordingly, the person of the owner will be surrounded by continuous uncertainty, which is incompatible with the concept of property itself on the one hand, while it produce a number of negative consequences on the other.

Today's fashionable holding companies, asset funds, asset managers and other concepts may be viewed as witty mental exercises which do not resolve the above described ownership dilemma.

Namely, the dilemma is simply this: how could the organizations, or persons appointed (who may be dismissed?) be owners. We believe that they cannot, and

thus the general problem of state ownership, the transformation of state ownership cannot be resolved today. Only natural ownership, it becoming significant, can create a milieu in which it makes sense to think about the improved operation of state property. Two conclusions may be drawn from this hypothesis.

Present transformations, the process of the managerial stratum becoming owners must be slowed down. Under no circumstances should the process be stimulated, so that the evolving spontaneous ownership does not become irreversible. One should not attempt to rapidly and globally transform the present [system] of state ownership on the basis of some holding, asset fund, asset central, or "ownership ministry" conception.

At the same time we must move quickly in two areas where ownership in the economy is not artificial, but natural.

#### **'Renationalization' Before Reprivatization**

Considering the new legal and economic framework, we cannot count on a significant influx of foreign capital, if such capital represents a majority share in most instances. In cases where the foreign capital represents a majority share of assets, the individuals which comprise present managerial stratum—who have just acquired quasi ownership status—become threatened in their capacities as owners, moreover, in case of a new owner not even a leadership role is guaranteed.

Who is entitled to the purchase price of state property, or who are entitled to exercise minority ownership rights in case a majority of the shares are held by a foreign owner, are fundamental questions. There is only one negative response to this question: by no means the earlier enterprise management which became a minority.

In order to establish appropriate conditions for the influx of foreign capital it must be made clear who the seller is, and this seller must be made interested in maximizing the sale. Today's unclear ownership conditions are not suited to accomplish this, therefore, in the interest of halting the peculiar spontaneous reprivatization, a "nationalization" must take place prior to the evolution of majority foreign share holding. (The legal possibilities—impossibilities?—of this matter are addressed at the conclusion of this article.) One or two organizations acting on behalf of the state could be empowered to offer for sale the securities of enterprises which must be first taken back under state management, and then transformed into single-person stock corporations. From a technical standpoint this process may be perceived in several ways, nevertheless it is an extremely delicate matter from the societal and political viewpoints. Not primarily because of foreign relations, but because of the instability of internal proprietary conditions. We are convinced, however, that at this point, the state which represents reform has some definite interests



which in certain specific cases are different from those of the top enterprise management, but which nevertheless must be represented.

#### Natural Owners!

The other area, where natural owners are implicit is the private economy. As of now, private property in Hungary exists only among small and medium sized enterprises (but it would be inappropriate to narrow down the latter category to purely private enterprise).

Attempts to change the industrial structure through decentralization did not lead to great success thus far. Nor did the number of players in the market increase substantially. Based on experience gained thus far we believe that another decentralization campaign initiated by the state would not make sense. "Organic" development on part of the state enterprises is also inconceivable, because the present leaders of state enterprises represent an interest which is the opposite of independence endeavors manifested by smaller units. (The weak units do not want to sever their status, the stronger ones are not let go by the enterprise council or by management.) In recent times, on one or two occasions a unit desiring to become independent was able to buy its way out to independence. One may assume with a high degree of certainty, however, that this will not become a mass phenomenon. Therefore we find that the passable way in the small and medium sized enterprise sector is the establishment of new [organizations], and the improvement of the "infrastructure" that comes about in such new establishments.

In developed capitalist countries a colorful institutional system supports the small and medium sized sector by providing information, training, advice, plant facilities, infrastructure and financial benefits for the stimulation of technological and export development. In Hungary too a new system by which these functions can be performed has evolved, or is in the process of evolving, but it is not targeted on the small and medium sized sector. And for practical purposes, except for one or two exceptions, private enterprise is outside of the system's jurisdiction. The means are splintered; in many instances decision making is centralized.

At the same time the means which in various forms could help enterprising are not insignificant. The National Association of Entrepreneurs [VOSZ] suggests the establishment of an office which would provide services and coordinate businesses. The office would function in the framework of a bank.

The VOSZ conception could be the starting point for a state assistance system whose backbone would be a regional banking system specialized to deal with small and medium sized enterprises. The banking system would operate on a business basis of course, but it would conduct activities of a promotional character which indirectly would be financed by the state. Today's

strongly centralized banking system is not suited to deal with a large number of small enterprises, while the small banks do not have a broad network of offices or businesses. The banking network to be established for the purpose of financing small and medium sized enterprises could represent an institutional background for the rational allocation of already existing resources.

Thus far, industry has barely used the system of renting, which could serve as a starting point for reprivatization in commerce. A redefinition of renting could provide an appropriate opportunity for the uniform regulation of both commerce and industry. The further development of the system which applies to commerce—it modernizes the complicated regulation of employment relationships and presents the possibility of purchase—could be applied also in industry.

Aside from all this, rental operations (and this is not to be understood as "leasing" [sic]) are a less widespread form in developed economies, primarily because the investment does not offer security. And even though it would not be appropriate to urge the widespread use of a rental system, it could be a temporary means by which a shortage of capital is bridged.

#### Renationalization and the Law

In recent times the Council of Ministers placed several autonomous state enterprises under state supervision on the basis of Paragraph 22.(2) of Council of Ministers Decree No 33 of 31 October 1984, which provides for the implementation of the law concerning state enterprises. According to the Decree the Council of Ministers may decide that an enterprise under the general direction of an enterprise council or a workers general meeting (meeting of delegates) continues its activities as an enterprise under state supervision. According to legal experts, this provision of the Council of Ministers Decree is in violation of laws.

Namely, Paragraph 2.(1) of Law No 6 of 1977 as amended, concerning state enterprises provides that an enterprise "manages itself independently for purposes of performing its tasks." Consistent with this provision, Paragraph 28 provides that assets managed by an autonomous enterprise cannot be withdrawn. Generally speaking, according to law an enterprise directed by an enterprise council or a workers' general meeting (meeting of delegates) cannot be placed under state supervision, because this measure applies only [if the enterprise stands in] violation of the law. The action of placing an autonomous enterprise under state supervision is the most severe sanction. In the context of Paragraph 39, this measure may be initiated by the organ which exercises supervision of legality only, and only if upon written notice the enterprise fails to correct the illegal aspect of its functioning.

Paragraph 53.(1) of the law authorizes the Council of Ministers to define other types of enterprises for the

performance of peculiar functions, consistent with the principles and goals expressed by law, and to specify forms of management different than trusts, in the interest of harmonizing the activities of individual enterprises. The Council of Ministers could specify peculiar rules also for enterprises which operate at a low rate of efficiency in the long term. The law does not authorize the Council of Ministers however, to specify further possible ways by which enterprises managed by enterprise councils or by workers general meetings (meetings of delegates) could be placed under state supervision.

The idea may occur that the general authorization provided to implement the law authorizes the Council of Ministers to change also the supervisory form of autonomous enterprises. From the standpoint of autonomous enterprises, however, it cannot be argued that placing these enterprises under state supervision would touch upon some fundamental rights and duties. Pursuant to Paragraph 15 of Law No 11 of 1987 concerning the [function and process of] legislation, however, those who frame the implementing legal provisions cannot be authorized to regulate fundamental rights and duties in the framework of their regulatory ambit.

The debated provision of the Council of Ministers decree (Paragraph 22.(2)) also conflicts with the basic legal principle established in Paragraph 1.(2) of the law concerning legislation according to which a lower level legal provision cannot be in conflict with higher level legal provisions. Accordingly, if, pursuant to the law, placing an autonomous enterprise under state supervision constitutes the most severe sanction in case an enterprise violates the rules, then the idea that the Council of Ministers, by virtue of its own implementing decree authorizes itself to take discretionary action in the absence of a rule violation, at a time when the law authorizes such action only in exceptional cases (in cases involving rule violations) contradicts the law.

**Industry Minister Explains Sale of Enterprises**  
25000146a Budapest FIGYELO in Hungarian  
23 Feb 89 pp 3, 6

[Interview with Minister of Industry Frigyes Berecz by Pal Reti: "We are Not Fighting for Legal Oversight"; date and place not given, first paragraph is FIGYELO introduction]

[Text] How does the minister of industry view the sale of Hungarian industrial enterprises? Does the Ministry claim ownership rights? Does Hungarian industry have a new crisis branch? What is behind the difference between statements concerning car manufacturing made by the minister on the one hand, and the deputy prime minister on the other? Sooner or later FIGYELO would have asked Minister of Industry Frigyes Berecz these questions "on its own". In this case, however, the conversation took place at his initiative. The reason: the minister is dissatisfied with the echo of his 31 January press conference.

[FIGYELO] Why were you dissatisfied with the echo of your press conference?

[Berecz] Relatively few people made an effort to write about it, and the 10-12 reports I read do not reflect fully what was said, even if we combine those reports. They did not even mention the most striking part of what I had to say, even though what I said represents an accomplishment by industry, not my success.

[FIGYELO] But you, too, made very cautious statements about successes. You said that nearly 20 percent of the capitalist export increment may be attributed to the booming metallurgy, that significant structural change in industry can be seen only in some places, and so on.

[Berecz] The most decisive change I see is that the current budgetary support of industry has ceased in practice. Industry is viewed by public opinion, and is registered in the consciousness of upper level political and government leadership as an overly subsidized branch of the economy, unable to move on its own power. This was not true even in earlier days. During the past 10 years, out of its annual contributions of 150 billion to 200 billion forints to the state budget, industry received more than 40 billion forints in subsidies even in 1987, while last year these subsidies amounted to only 26 billion forints. This year, considering also the increased excise on exports settled in rubles, subsidies will cease to exist in practice. The discontinuation of subsidies in the course of two years represents a significant improvement.

[FIGYELO] Thanks to its boom, less is talked about the metallurgy industry nowadays. Previously it was viewed as the industry branch experiencing the greatest crisis. There are some new crisis branches appearing on the horizon however, mainly because of reduced exports and reduced defense procurement. Crisis symptoms have appeared already earlier in certain fields of heavy machinery manufacturing, and by now these symptoms have reached the electronics industry. To what extent do these symptoms influence the favorable picture you presented concerning discontinuation of subsidies?

[Berecz] The electronics industry is not a crisis branch in the sense we viewed the coal mining industry or the metallurgy industry as crisis branches. The instrumentation and communications technology enterprises never received individual subsidies; there was no mercy if one of them went bankrupt. This can be seen in the examples of the discontinuation of EMB, VBKM, IGV or the HTV some time ago, or in the liquidation of the Electronics Enterprise last year, which was purchased by a small cooperative. There are no great forces behind the electronics industry, they do not receive current subsidies, they are not highly indebted as for instance the metallurgy and the coal mining industries are. Incidentally I had a talk the other day with the heads of significant electronics enterprises which export to socialist countries and are engaged in defense production. We all agreed that the discontinued defense orders should be replaced

as soon as possible by as large a role as possible in the domestic long distance communications development program. One need not exercise power to pave their way, each affected enterprise has its own idea as to which order to be placed by the Postal Service it will compete for.

[FIGYELO] Will anyone reimburse the enterprises for the losses incurred as a result of canceled military procurement?

[Berecz] The possibility of reimbursement is being examined by the cabinet. The Ministry of Industry was assigned the task to assess the losses suffered by enterprises. The government, however, will hardly be in a position to pay for the losses, even though it is conceivable that for the five or six year period during which losses are recovered as a result of a changeover to manufacturing civilian long distance communication equipment, the enterprises will be provided basic support or credit.

[FIGYELO] Reverting to the reasons for dissatisfaction: where do you see a substantial change in terms of the so-called structural transformation?

[Berecz] In addition to the discontinuation of subsidies, I view the change in the composition of industrial production in a favorable direction as an important sign of structural transformation. Mining production has declined, energy production remained unchanged, and except for the manufacture of means of transportation, machine industry production has increased, and so did production in the light industry and in the chemical industry. The extraordinary increase in metallurgy exports did not take place to the detriment of structural transformation. They discontinued obsolete technologies, and personnel was reduced by 5 percent. A similar favorable trend is indicated by the fact that 80 percent of R&D resources were spent on processing industry development, and only 20 percent was spent on exploration. More than 50 percent ["a majority"] of investments was

concentrated within the progressive branches. In addition to the machine and the chemical industries, we also view Paks as a progressive industry because it represents a breakthrough in energetics structural transformation. And finally, the rearrangement of the marketplace also attests to favorable structural transformation: domestic sales increased by only 2.3 percent, and sales at the socialist marketplace remained unchanged. In contrast: convertible currency exports increased by 19.2 percent, and 80 percent of the growth represents sales in developed capitalist countries.

Most hurting is the fact that despite this favorable ratio, funds allocated for research and development amount to 18 billion forints only, which translates into about 350 million dollars. This is so, while in countries where they take industry seriously, one or another significant new subject in and of itself requires one or two billion dollar developmental investment.

[FIGYELO] 350 million dollars is indeed very little. But I wonder, is it not the traditional megalomaniac outlook of industry which is reflected in these comparisons with billion dollar programs? After all, a majority of Western European countries are not engaged in such developmental projects, nevertheless they are able to continue to lead.

[Berecz] Without an exception, in those countries it is through such developmental projects that small and medium sized enterprises acquire an industrial and service background. As of now, this is beyond the reach of Hungarian enterprises. They have in stock all kinds of materials and component parts, and they have access to huge information systems, to excellent transportation. The basis of this—new materials and new manufacturing equipment, large software programs, large computer installations, new generations of component parts—is developed through billion dollar investments made by mostly large, moreover multinational large enterprises. Through this they also create a decisive, important market also for small enterprises.

**Distribution of Industrial Investments and Production Per Branch of Industry (in percentages)**

	1981-1985		1986		1987		1988	
	I	P	I	P	I	P	I	P
Energy and basic material exploration industry	59.4	38.9	59.2	37.9	56.6	36.2	54.0	37.0
Processing Industry	40.6	61.1	40.9	62.1	43.4	63.8	46.0	63.0

Key: I = Investment; P = Production

Note: The decreased ratio of processing industry production in 1988 is a result of a rearrangement of producer prices on 1 January; at comparable prices the ratio increased further. [Translator's Note: Investment proportions in 1986 add up to 100.1 percent in the Hungarian text.]

[FIGYELO] Such background can be acquired most easily by having good connections to capital resources. The Ministry of Industry has selected enterprises suitable for this purpose. (FIGYELO No 7, 1989). What points of view served as the basis for this list?

[Berecz] This is a compromise list. It would be most advantageous to sell troubled enterprises, but obviously no one would buy those. On the other hand, it would not be rational to sell only those, which prosper as a result of their own efforts, and which continuously create a positive



convertible currency balance. Incidentally, capitalist owners may find good business in buying an enterprise with unstable financial foundations, because in this way they receive a greater reduction in price. Enterprises which have an appropriate intellectual base are of particular interest to them.

[FIGYELO] How was the list prepared in the end?

[Berecz] It is no secret that we had to provide "ammunition" to Karoly Grosz, Miklos Nemeth and Peter Medgyessy for their negotiations abroad. A tight leadership group in the Ministry of Industry assessed which enterprises should be offered for sale. Enterprises which objected to being sold were not placed on the list.

[FIGYELO] While for the past several months the lists of enterprises for sale have been publicly available abroad, even as of today no one knows who has the authority to sell these enterprises.

[Berecz] This is true. It is a shame that due to the large number of interpellations, the planned interpellation by professor Kalman Szabo to be addressed to the Minister of Finance could not be heard during the December session of the National Assembly. He wanted to ask the question of who would have the authority to exercise rights in this matter. Until this matter is not clearly defined, ownership rights cannot be exercised by any single institution. All organs which have an interest, or play a role in a given case must concur in regard to the sale of an enterprise. This means the functional and branch ministries, the banks, as well as the enterprise itself. The Council of Ministers or the Prime Minister may decide on the basis of their reconciled views.

[FIGYELO] On the other hand, the investors may easily lose interest as a result of this whole process.

[Berecz] Unfortunately, this danger exists under the present circumstances, even though great interest is manifested. There are prospective buyers for 20 out of the 51 enterprises that are for sale. Partly because of the above mentioned uncertainties, no decision has yet been reached. I view it as one of the main issues of reform that we define the representation of state property this year more clearly than the light of day. It is clear that such representation cannot be made by an enterprise council, and that autonomous enterprises do not represent group property. Incidentally, the buyers do not wish to negotiate with elected worker councils. They want to talk to genuine owners. They would not know what to do with an elected body, and workers councils would not know how to play the role of the "seller."

[FIGYELO] We frequently hear—also from Ministry officials—that the role of the Ministry of Industry has been on the decline for years. But on occasion, the Ministry also fails to exercise the authority it has. You

also mentioned at your press conference that the name of the Pet Nitrogen enterprise has for years appeared on the list of enterprises which currently are in crisis. That enterprise is still headed by the same person who presided over almost a year of bankruptcy reorganization and now over the liquidation of the enterprise. To a large degree he is responsible for the bankruptcy. This kind of thing is unprecedented in international practice, and even in Hungary, this kind of thing does not usually occur.

[Berecz] I accept the criticism in regard to Pet. I initiated action to relieve Lajos Kisgergely—because that's who the person is—the other day. But your question is valid: why did I act only now? I was able to become more closely familiar with the Pet Nitrogen Works case only after my appointment as minister, about a year ago. But I must also say this: what took place goes far beyond the sole responsibility of enterprise management.

The liquidation of the Pet Nitrogen Works cannot take place the way the liquidation of, for example, a machine shop would take place, whose assets can be used for other purposes. In Pet we find a relatively modern, but a single purpose, dedicated technology spread over a huge area, the book value of which is in the order of 10 billion forints. No one in Hungary would buy that enterprise even for one tenths of the book value, one cannot leave that enterprise to its own fate, and dismantling and hauling away the dismantled plant would also cost billions. This "solution" would be a waste of assets. The enterprise can be brought back to life only by attracting foreign capital.

[FIGYELO] Different subject: the automobile industry. Following negotiations with his Soviet partner, Peter Medgyessy said that Hungary does not want to participate in the manufacture of the Tavria. According to deputy industry minister Gyula Soos there is a breakthrough in the government's position, insofar as the government has agreed that Hungarian automobile manufacturing deserves central subsidies amounting to many billions of forints. You say that if enterprises decide on their own to manufacture automobiles, let them go ahead and manufacture Tavria component parts.

[Berecz] The most essential difference is not between our views, the difference evolved relative to the prime minister's agreements reached in December 1986 and in April 1988. The "difference of opinion" that exists between Gyula Soos and myself is not great, why should we keep it a secret? He is the spokesman for an enterprise view which claims that huge amounts of money are needed for the automobile industry, while I am looking for a way in which we could establish an automobile industry in Hungary with somewhat less investment and by utilizing existing resources. In his negotiations with Nikolai Talizin, Peter Medgyessy did not broach the sole disputed issue: whether there should be an orderly relationship between the prices of imported finished cars



and exported component parts, because the government cannot surrender the possibility of significantly skimming the cream off the imported car prices, so that it can subsidize the Hungarian component parts manufacturers. It was in response to this situation that I indicated, that with this decision the government will not bar the enterprises from reaching barter agreements with the manufacturers of the Tavria, at the same time, however, the government cannot subsidize such barter agreements. But as a result of deviations in the pricing system, this dilemma applies to all cooperative car manufacturing projects within CEMA. If the government cannot skim the cream, and thereby leaves the component parts industry to its own fate, then the transferable ruble prices of finished cars will not last for long either.

[FIGYELO] Did the partners make specific threats of this nature?

[Berecz] They made references to it. But one can understand this. To express myself in rough terms: one cannot sell junk for long at the price of gold to someone from whom we want to buy another piece of junk at the price of junk. In my view, we will hear the last word regarding the Tavria case in the course of negotiations between Miklos Nemeth and Nikolai Rhyzhkov this month.

[FIGYELO] There are rumors, according to which the joint mining of copper at Recsk will also be decided there.

[Berecz] Yes. The Soviet Union has not yet provided a high level response as to whether it wants to participate in this investment. It is certain, however, that we do not have any more money for this purpose, all we could contribute are the underground mineral assets and the existing establishments. There would be Western prospective clients, but according to a decision reached in the early 1980's the industry cannot negotiate with anyone except the Soviet party. In the event that the Soviet Union manifests no interest, there still is an opportunity for the National Ore and Mineral Mining Enterprise which has no real interest in mining copper, to render Recsk as independent, in order for Recsk to find itself an enterprising partner. It would be a great triumph for those at Recsk if this were to succeed—I really would not mind this to happen contrary to the government's, and within that, my own view. On the other hand, if this does not succeed, then any further interpellation in parliament about the government not permitting Recsk to evolve will have been in vain. They must accept the decision rendered by the marketplace.

[FIGYELO] Not too long after your arrival you devoted much public attention to your intent to reorganize the ministry in a radical fashion, and to liquidate deputy minister positions which could be regarded as centers of interest representation. The organization of the ministry has remained substantially unchanged ever since.

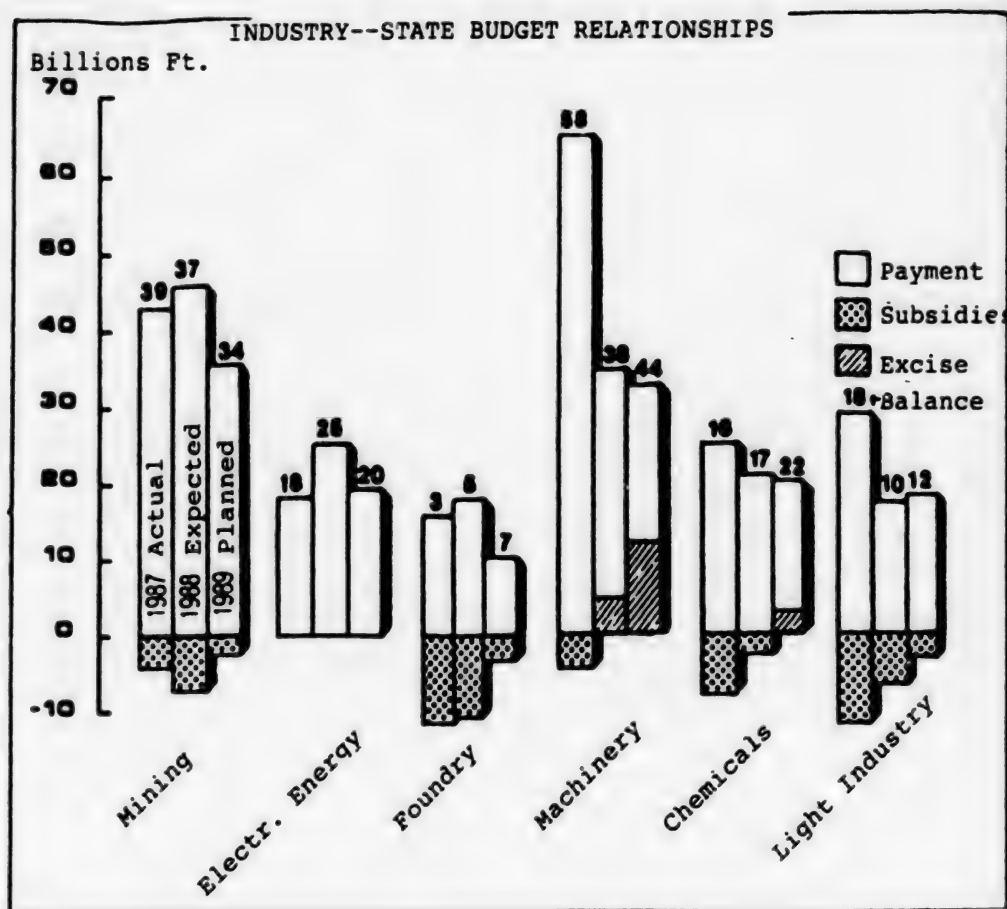
[Berecz] There was no "great publicity," because I did not talk about my conceptions as a catalyst. But I responded when I was asked by the press, or by internal bodies within the Ministry of Industry. In early March I put my recommendations on paper and forwarded them, but not too soon thereafter I received a response from the cabinet saying that I should wait until the entire working of government is reorganized. Except for the establishment of an infrastructure ministry which affects industry only in part, such reorganization did not take place thus far. Reorganization of the ministry should be preceded by decisions concerning the transformation and oversight of industrial enterprises. At present legal oversight is provided by the branch ministries. According to plans, this authority will be transferred to a greatly increased state organization built on the Court of Registry. In this respect, however, there is a wide difference in opinions. The way we see it, the new order cannot be established prior to 1 January 1990. As of today not even the meaning of the term "legal oversight" has been clarified.

[FIGYELO] Could we interpret this to say that the Ministry of Industry is fighting for the authority to provide enterprise oversight?

[Berecz] No! We are not fighting for the authority to exercise legal oversight. All we are thinking is this: let's not blow up a bridge, not even if it is obsolete, until we build a better one. What relationship will there remain between the government and the enterprises if this oversight ceases to exist, and new oversight is not yet functioning?

[FIGYELO] One hears with increasing frequency that as a result of the alleged fiasco of autonomous forms, there will take place some kind of a "renationalization."

[Berecz] The experiences gained from new forms of enterprise management will soon be placed before the Council of Ministers, but this does not take place on our initiative. Other organs, which got fed up sooner with the enterprise councils hindering the implementation of the purposes of economic policy initiated this action. In those days the Ministry of Industry was not enthusiastic about these new forms, yet at this point it is we who say that the baby should not be thrown out with the bath water. In our view, a better solution should be sought only in regard to enterprises which operate at several locations, because in these enterprises the enterprise councils are unable to represent the enterprise interest against the partial interests. In such cases some kind of an organization similar to a holding [corporation] could be established while individual parts of the enterprise, the individual sites would retain their autonomy. In cases involving small and medium sized enterprises, the autonomy could move in the direction of real group property. In other words, under no circumstances would the Ministry of Industry want to reacquire the authority to oversee property. But the enterprises would gain nothing if another state organ grabs and exercises that authority.



TOTAL INDUSTRY (Except food and building materials)			
	1987	1988	1989
Payments	197,3	161,9	139,7
Subsidies (+)			
Excise (-)	+ 42,2	+ 25,8	- 2,0
Balance	155,1	136,1	141,7

[FIGYELO] How would a future, ideal Ministry of Industry look like according to your conceptions, if all the changes we discussed would be implemented, say within a few months?

[Berecz] There will never be an ideal Ministry of Industry, just as there will never be an ideal government or an

ideal economy. To a certain extent we may view as our model the better three quarters of countries belonging to the Organization for Economic Cooperation and Development [OECD]. A majority of these has ministries of industry, whose function and authority in a certain sense is narrower than ours, while in other respects are broad. The difference stems from the fact that they adapted

themselves to an economy in which every proprietary form represents a significant proportion. At present, the Hungarian economy is changing along these patterns, we are paving the way for such a situation to come about. If this becomes a reality, the very fact that each proprietary form is significant prevents us from being owners in any sense of that term; moreover, our relations with state owned enterprises must be identical to those which constitute cooperative property, or to private small trade or 100 percent foreign owned enterprises. In order to have such relationships we must learn far more about the characteristics of economies with mixed proprietary forms, the ways in which these economies can be influenced as well as their international industrial developmental trends, and having all this information we must formulate an industrial policy which is consistent with the government's economic policy. We feel that Martirok Street will be more suitable to accomplish this purpose in the future, than, for instance Jozsef Nador Square or Roosevelt Square.

**Evaluation of Enterprise Net Worth Described**  
*25000146b Budapest FIGYELO in Hungarian*  
2 Mar 89 p 10

[Article by "Sebok": "Valuation Already Constitutes Assets"]

[Text] We have known for long that the real worth of enterprise assets does not necessarily, moreover in a majority of the cases definitely does not, correspond with the book value. The big question is this: what method should be used in various instances for the valuation of assets.

Existing enterprise assets, or parts of such assets may be reassessed if the business organization splits up, joins or merges with another business organization, or if a business organization contributes certain elements of its assets to a business organization in the process of being formed. In these days the revaluation of parts of assets takes place relative to the establishment of a business corporation, after all, other types of organizational transformations did not take place too often. (Quite naturally, the sale of assets is not always based on book values. Revaluation of all the assets, i.e. the preparation of a financial statement different from what is usually prepared for purposes of taxation, may be necessary relative to applications for large bank loans.) With the law on transformations having gone into effect, these processes gained strength, and thus the valuation of assets must become a daily practice in the Hungarian economy.

There are two known methods for the valuation of assets:

The first method uses the inventory of assets as a starting point. Fixed assets included in the inventory must be assessed at their sales value, in other words, one must examine how much these items are worth in the marketplace, for how much could they be bought or sold. Accordingly, using this method (see table below) the

basic categories are the replacement price, the selling price and the purchase price.

The other method for the valuation of assets starts out from the expected earnings, the profits of the enterprise, and determines the value of operating capital on the basis of the expected (planned) capitalization of profits. The peculiar feature of this method is that it takes into consideration in any given enterprise only the actually operating assets (while it does not take into consideration fixed assets serving welfare purposes or invested elsewhere), and the resultant value is a direct function of the interest rate taken into consideration in the course of capitalization. (Along with current Hungarian interest rates this clearly represents a devaluation of assets. But it is the uncertainty of expected profits which speaks against this method mostly.)

Numerical values, however, are always subject to change by various factors which are not measurable. It has occurred already in the course of bankruptcy liquidations and reorganizations that the total revenue derived from individually sold fixed assets was greater than the value of fixed assets according to the closing balance. The only trouble was that under given conditions a given enterprise management was unable to operate the ensemble of these fixed assets in a profitable manner. But one can find examples also for the opposite situation, when the value of fixed assets was worth the book value only if considered as a whole. Moreover, further, less tangible factors also influence the actual market value of a firm, which, in addition to the already mentioned management factor include e.g. the enterprise's developmental strategy, its intellectual potential, the preparedness to innovate and its market position. (Just as we find that changes in these factors influence the exchange rate of enterprise stocks.)

The valuation of assets, however, irrespective of which method is used as a base, may yield some very surprising results and recognitions. Most likely, a large part of industrial organizations will find a situation similar to that of Tungsram: the valuation accomplished prior to Tungsram's transformation into a stock corporation, based on market values declared that almost 30 percent of Tungsram's book value should be written off. Among the most important reasons one finds the fact that Hungarian amortization rates, as those apply to buildings and to machinery are usually far lower than those applied in developed capitalist countries. (At the same time, assets depreciated to zero value still produce profits.) For this reason a majority of the fixed assets are overvalued. On the other hand, land in the form of a lot or as productive agricultural land is mostly left out from financial statements. Accordingly, in agriculture, a valuation of assets may easily result in a substantially higher valuation. But even among parts of the assets not listed there are elements which may be assessed below or above their actual values.

As compared to Tungsram, the Machine Tool Factory of Csepel Works provides the opposite example. Here the potential assets were assessed by taking into consideration the enterprise's strategy prior to transformation, and based on the expected outcome of capitalization. According to these calculations the value of fixed assets exceeded the book value of assets by almost 50 percent.

Regardless of which method we view, there is no strong basis to justify fears that valuations performed on a broad scale would result in a large scale underassessment of Hungarian national productive assets. On the other hand, the structure of assets and the allocation of these assets among the various branches of the people's economy would substantially change. (At the same time, however, we cannot maintain silence concerning the fact that valuation activities pursued by foreign public accounting firms is subject to much criticism on grounds that applying valuation methods designed for use under developed market conditions are not appropriate in Hungary, and for this reason too there may be significant discrepancies between valuations. Viewed from a different vantage point it is a problem that the Law concerning Business Organizations provides assurances against the overvaluation of founding capital, thus protecting the

creditors' interests. Nevertheless there is no assurance whatsoever that undervaluation would not take place.)

What we have said thus far is based on the assumption that the valuation of assets is a one time act, which is warranted by transformation (or borrowing). The law concerning entrepreneurial profit taxes now in force does not even enable a continuous, or at least a regular periodic valuation of the assets of business organizations functioning today, but this, perhaps would not truly enhance that much yearned for clearheadedness. For this reason, in regard to the modernization of the valuation of assets, Ministry of Finance experts recommend—along with other solutions—that business organizations prepare two kinds of financial statements each year: one for tax purposes according to today's accounting requirements and responsive to the provisions of the entrepreneurial profit tax law for use by the tax authority of the first instance and by the management organs, and another showing assets [and liabilities] (commercial balance) for use by business partners and banks which provide financing. This dual accounting system is consistent with the practice followed by firms in developed capitalistic countries. Since the financial statement showing assets [and liabilities] is prepared for internal informational purposes, there is no need for separate legal provisions to require the preparation of such statements.

#### Valuation Principles Used in Two Types of Financial Statements

#	Assets	Financial statement pursuant to the Entrepreneurial Profit Tax Law	Financial statement reflecting worth
01	Gross value of fixed assets	Actual cost	Replacement cost, replacement expenses
02	Depreciation accounted for	Based on amortization schedules	Based on physical wear and tear, and on intrinsic depreciation
03	Net value of fixed assets	Gross value minus depreciation	Based on sales or purchase price
04	Investments	Based on investment expenses specified in the Law concerning the Order of Investments, or production value of investments in one's own enterprise	Based on actual investments
05	Supplies purchased	Actual purchase price (weighed price average,) first or last purchase in a calendar year per unit	Based on selling price, or on replacement price
06	Self-manufactured or self-prepared supplies	Actual direct costs	Based on selling price, or on replacement price
07	Securities	Actual cost, purchase price	Published securities buying prices
08	Receivables	At accepted and reconciled amounts	Accounts receivable amounts owed by delinquent buyers and debtors

The working committee charged to deal with proprietary reform also supports the idea that instead of continuous

corrections of values, business organizations starting under the new system should have reliable financial



statements prepared by experts, and that in the future the managers or owners of these firms make a decision concerning the parallel preparation of dual financial statements, one for tax purposes, the other reflecting the firm's market value. An advance, realistic valuation of the worth of an enterprise transforming into a stock corporation is an indispensable conditions for the transformation of large state enterprises into stock corporations, and for state asset management which is built on such transformation. Only in this way can stocks appearing on the securities exchange represent the real value of assets, and only under these conditions may we hope that in time, our securities market will become involved in international securities trade. With respect to functioning companies however, the financial statement showing the assets once again will not express the momentary market value of an enterprise. The prevailing market value is determined by the capital market.

#### **Investigation of Corruption Reported**

25000113b Budapest NEPSZAVA in Hungarian  
26 Jan 89 p 1

[Report by Z. Levente Szabo: "Report on the National Staging Bureau Investigation: Millions in a Ledger"; first paragraph is NEPSZAVA introduction]

[Text] What Follows Is Police, the Minister of Culture and the APEH [expansion unknown].

There was a report yesterday afternoon in the headquarters of the Central People's Control Committee [CPCC] on the results of the National Staging Bureau investigation. Laszlo Ballai, President of the CPCC, Sandor Mihaly, chief of main department, leading the investigation, and Antal Stark, State Secretary of the Ministry of Culture and Education, confirmed that the investigation on the scene corroborated the reports.

Several inadequacies are to be found in the NSB's economic management. The various forms of control had not been enforced and thus the losses resulting from tax arrears, advance payments and fictitious payments amounted to several million forints. For this reason the CPCC closed the investigation falling within its jurisdiction, handing over the documents to the National Police Headquarters for [further] investigation of corruption. At the same time, the Minister of Culture and Education and the APEH'S president were asked to take the necessary steps within their own jurisdiction as well.

It became apparent from State Secretary Antal Stark's report that the Ministry of Culture and Education, which is the organ of trade supervision, has already begun uncovering the affair. Sandor Kormos, Chief of the Main Department of Public Education, has been relieved of his office at his own request.

Appalling facts have now come to light. Close to 1,000 tickets were missing from the accounts of two randomly

selected 1987 performances. At years' end advance payments were regularly made to performers and—for sham editing—to their dependents for programs not even prepared. The amounts of money varied between 60,000 and 400,000 forints. For example, advance payments amounted to 1,964,000 forints in December 1985 and to 1,307,000 forints a year later. The amounts and the delivered productions were recorded in a cross-ruled notebook. However, a few items, such as the 160,000-forint payment to Istvan Barna, director of the Maxim [nightclub], are missing even from this list.

The reports that, according to the CPCC, Laszlo Kabos, Jozsef Sas, Jozsef Arkus, Eva Bedecs, Gyorgy Korda and Klara Balazs, as editors of their own and other persons' programs, received not only remunerations that were at least 50 percent higher than production honorariums but also advance payments, also proved to be true. Of course, this is only a sample of names, for checking was done at random selection. It is probable that many more persons received illegal remuneration. Even fictitious invoices and payments were found.

It is hard to understand how these abuses could be covered up for years on end. For light had already been shed once on [such] manipulations back in 1985. At that time less than 1,500,000 forints were missing from the accounting of the New Year's Eve tickets. When this was discovered, more than 7.5 million forints were paid out to cover the missing sums, using the National Savings Bank savings accounts which had been placed in the NSB's own cashier's desk but which had been written out to private persons. (The economic director, Janos Jenofi, is at present a high-ranking employee of the APEH.) The 25 savings accounts of that time have been closed but nothing is known of the interest accumulated. Moreover, whether or not similar things happened previously or have happened since, has not been determined to date either.

Public opinion would like to see this matter clarified.

#### **Feasibility of GKB Recommendations Debated**

25000144 Budapest FIGYELO in Hungarian  
2 Mar 89 p 9

[Article: "Economic Consultative Committee [GKB] Working Groups in Session"]

[Text]

#### **Clear Goal, Obscure Path**

As part of its social and economic reform efforts and its endeavors to formulate a modern market economy, the government last year decided to establish a committee to examine and to reveal the essential points of the social and economic turnaround. Not too long ago the Economic Consultative Committee [GKB] debated the recommendations of the working committee on "Global Economic Opening and on the Development of Market

Conditions" chaired by state minister Rezso Nyers (FIGYELO No 7, 1989). After almost five hours of discussion no one had any doubts about the goal: the propriety of a global economic opening. There evolved, however, a lively dispute concerning the possibilities of implementation, and the specific alternatives and pace of implementation. Members of the GKB were in agreement with the basic assumption made in the material submitted by the working committee: the condition for transforming our domestic economy is to bring about a radical change in the order and method of CEMA relations observed thus far. Namely, one of the main reasons for the noncompetitive character of the Hungarian economy is that while using Western inputs [sic], economic production at its present capacity is exceedingly biased in favor of producing for the domestic and the CEMA markets only. A global economic opening—the way this term was defined—assumes not the discontinuation, but the renewal of CEMA relations.

The relationship between external and internal conditions was discussed. Participants viewed the internal conditions almost unanimously as primary considerations from the standpoint of opening. (The global economy cannot serve as an obstacle to the opening because our share of global trade amounts to 4 thousandth of the total. An increase of Hungarian exports by 2 billion to 3 billion dollars would add only one thousandth to our share of the total, at best.)

Enterprises are a key link in the chain. Would Hungarian [industrial and] business organizations be able to implement such a turnaround? The GKB was not unanimous in judging this matter. There were some who believed that the opening described in the study presumes a long-term market presence, and close technical and technological relationships in the marketplace. In contrast, from the standpoint of Hungarian enterprises today, sales, rather than "presence" are important. The following issue was raised: the changing of markets requires a transformation of the product structure, as a result of which enterprises may go bankrupt one after another, labor may be freed, and supplemental capitalization may be required. Considering all these effects and consequences the opening must take place only gradually. Others, on the other hand, stressed the fact that the internal conditions of enterprises also change, that as a result of liberalization they would have easier access to imports needed for modernization, that deregulation would expand their economic freedom, and that the future convertibility [of the forint] would at last bring to an end the present separation of the markets. Doubtless, all this requires sacrifices in the short term, (unemployment, inflation), but these sacrifices cannot be avoided even if we do not make changes. Moreover, for decades we have been witnessing the gradual deterioration of our competitiveness, whereas we always postponed the taking of such steps. Accordingly, the question is this: how can we, on the basis of a detailed strategy, minimize the sacrifices.

All participants believe that present external international conditions are relatively favorable for a global economic opening. From the standpoint of CEMA partners, and primarily the Soviet Union, an opening of this nature does not appear as unacceptable, either from an ideological or an economic point of view. No one took issue with the idea that the traditional method of plan coordination cannot be sustained, and that the earlier method of the state accepting obligations must be terminated. It is an open question what should take the place of the old method, and how such change would affect our short term trade prospects with socialist countries. The study offers several alternate solutions in this respect. One participant called attention to the fact that in the present structure, direct relationships between enterprises frequently present an opportunity for individual enterprises to escape the forced change. There was a general understanding, however, that the situation in which inefficient business organizations are sustained because of (or under the pretext of) interstate obligations must be discontinued.

Also as a result of the indebtedness incurred during the past decades, Hungarian external economic relations have shifted in the direction of transactions to be settled in convertible currencies. Our situation fundamentally depends on gradually improving our economic accomplishments thus succeeding to generate sufficient confidence to obtain new credits for the management of our debts on the one hand, while attracting foreign capital in the interest of enhancing our export capacity, on the other. At the minimum we would have to produce a balance of trade surplus sufficient to pay the interest on loans, according to the GKB members. In the opinion of some, however, it was not certain whether such surplus could be produced solely from merchandise trade, or if tourism, transit trade and service deliveries too would play a significant role. The influx of operating capital may improve our situation, but we cannot count on more than 100 million to 200 million dollars per year.

While not taking issue with the importance of improving economic achievements, several persons stressed the significant role played by political factors. Viewed from the outside, our present situation is favorable. Rendering the forint a convertible currency was viewed as an important part and goal of the liberalization process, nevertheless they agreed with the wording provided by the working committee, according to which one may count on convertibility only as a result of a longer process, and only if the conditions specified in the recommendations are established.

As Rezso Nyers stated in his summary: no one had any doubt about the fact that in the long term the recommendations made by the working committee point in the proper direction. Debatable is the question of what effects and risks our measures hold in the short and medium terms. At what pace can the recommendations be implemented, and what effects will they have on the

standard of living, on inflation and on employment. Finding answers to these questions is the next task.

#### In Lieu of New Land Distribution

In the course of debating proprietary reform in agriculture, the GKB working committee "Peculiar Features of Managing the Agricultural Economy" expressed the need to establish a market for land which adapts to the market mechanism. By now, however, nowhere in the world can one find a land market free from central intervention. Limitations on the land market have as their purpose to hinder the evolution of farms which are not viable, and to enhance the increase of competitiveness.

In the framework of agriculture, enterprise and property are inseparable. For this reason, legal and economic conditions must be established, under which a transition between various proprietary forms can be realized, and under which those who cultivate the soil may once again become the real owners of the land.

At present, 60 percent of the lands cultivated by cooperatives belongs to cooperatives, 36 percent is individually owned, and 4 percent is state property conveyed for use by cooperatives. In order for the membership of cooperatives to appear as the real owner, lands which constitute cooperative property must be "named." [FBIS note: The Hungarian term, "nevesíteni," means to put a name to; it seems to be used in the sense of to deed land to the cooperative.] The date when a member joined the cooperative, the character of his activities within the cooperative, etc. may serve as the basis for such action.

Individually owned lands used by cooperatives must remain in their present form. In the event that the cooperative has paid for such land already, the member should be able to repay the money paid in exchange for the land, and should be able to once again own the land. At the same time that proprietary conditions are resolved, land use and land lease issues too may be resolved. In the context of land utilization the legally guaranteed forms of land lease must become characteristic. Cooperative members should be entitled to determine the method of utilization, and the leasing fee should be redistributed to the membership at a rate to be determined later.

It must be recognized that in regard to a number of plant cultures, intensive production is not unequivocally linked to large tracts of land. In other cases, however, the protection of large tracts of land for the growing of wheat and industrial plants constitutes the national interest.

Leasing of land should be based on competitive bidding, in case of joint use, the owners should be paid dividends from the balance.

From the standpoint of rational land use, and of establishing and linking the opportunities of village development in an organic manner, the various forms of communal property (the common ownership of meadows, grazing land and forests) must be established once again.

If for no other reason, the issues attending land ownership must be settled because the programs of alternative organizations increasingly discuss the need for a new redistribution of land. Such demands may increase, and one cannot rule out the possibility that in the future persons outside of cooperatives would seek return of their land.

Thus, rather than summarily condemning the idea of a new distribution of land, there is a need to establish the institution of deeded [see note above] land, because this may contribute to the strengthening of the existence of ownership among cooperative members.

This does not mean a new distribution of lands. It means that cooperative members become the actual owners [of land]. This solution would strengthen the feeling of ownership among members. In the future, cooperative members may become the defenders of cooperative lands against those, who would want to disintegrate the existential base of the cooperative membership, from the outside.

Insofar as issues pertaining to the further development of cooperative and state property are concerned, the fundamental requirement of minimum state (administrative, bureaucratic features) intervention, and the establishment of real cooperative-enterprise independence are the conditions for any further development of these proprietary forms. On the other hand, the system of enterprising within cooperatives should evolve only, if agricultural production becomes profitable also for the entrepreneurs.

The present prohibitions should be exchanged from inspirations. From the standpoint of developing large cooperative plants it is of decisive importance that the after tax income remains with these plants, and that the state not interfere in the utilization of such income.

A further development of cooperative ownership is conceivable only through a process in which cooperatives acquire an entrepreneurial character. Thereafter, the tasks of a cooperative's headquarters would pertain primarily to the branches of efficient mass production (wheat, agricultural plants), services rendered to entrepreneurial ventures by members, and to the management of assets. The present large enterprises could easily become non functioning if this transformation does not take place.

In regard to the proprietary reform of the agricultural branch it must be stressed that enterprising represents not only advantages but also the assumption of risks, which carries the possibility of potential failure.



### What Is Experiencing Crisis, After All?

"We are increasingly quoting from Szechenyi, yet we are increasingly following in the footsteps of Kossuth," one person remarked at the GKB February debate on studies concerning the evaluation of the past period. The working committee which developed those studies was chaired by Ivan T. Berend. While a majority of the participants felt that compared to the relatively voluminous analysis of the past, there were only a very few lessons to be learned; it was felt that whatever could be learned from the past was inseparably tied to each person's political view. This was well reflected in the debate where distinctions were made between a crisis, and perhaps a general crisis in which Hungarian society and the economy finds itself, and whether that crisis affects socialism itself, or only the models of socialism which were followed thus far.

Some felt that a general crisis is synonymous with an inability for renewal, which would be unacceptable, because Hungarian society and the economy has embarked already on the path toward reform. In contrast, however, drawing conclusions from the future is a method unbecoming to historians, and further, reality is not necessarily "hell," it could also be a "purgatory." Also Lenin was able to demonstrate the general crisis of capitalism, even though capitalism was able to achieve long term renewal. Some viewed the expression "crisis" as disarming, others, however, felt that the government would be willing to act only if it sensed crisis.

According to one of the well defined viewpoints we are dealing with the general crisis of socialism. This is so because nationalization and the cooperative movement were not only accomplished in haste and in an exaggerated fashion, but also because both of these actions and movements proved to be dead-end streets from which one must get out. The person representing this view believes that it is characteristic today that the economic and political leadership recognizes the crisis, moreover it is aware of the fact that it cannot manage the crisis by resorting to old methods. On the other hand, the masses are unaware of this, they just sense trouble. In contrast, others argued that only stalinist socialism, and the semi market model of socialism which evolved after 1968 are experiencing crisis. In regard to the latter it was also stated that we should not underestimate the significance of 1968, because in other countries even the semi market model may be viable for a long time to come. For this reason, rather than mentioning the general crisis of socialism it is more appropriate to discuss the crisis of models. One could not discover a marked difference between the economic policy consequences of these two views, however.

Several persons felt that during the past four decades the leadership never had any really good economic policy strategy, and when experts defined medium range strategies, short range considerations, and efforts to avoid conflict always frustrated the implementation of

medium range strategies. In this relationship it was also stated that today's crisis phenomena—unemployment and inflation—are truly negative manifestations which accompany our adaptation to economic realities—a process which has finally begun—and the artificial suppression of which would once again mean delaying the above discussed difficult decisions. Without taking issue with this matter, it was stated that the unilateral transfer of tax burdens on citizens could be changed in a manner so that enterprises respond to the worsening of their economic conditions not by transferring their expenses [on to citizens], but instead by improving their efficiency. Such improvement would be inconceivable without competition, however.

Several persons discussed the [influence of] political and ideological determinism on economic decisions. Such problems still exist today, and political instability did not favor economic policy commitments. While concentrated political power would be needed, by following the traditional path such concentration could easily lead to the restoration of a model having a stalinist character. Several participants viewed the need to harmonize political and economic reform as an important lesson to be learned from the past period.

It was said that in many respects the present situation is new, and that there is no example to be followed. Nowhere did the market oriented transformation of a post-Stalinist system succeed; it is unclear how the indebtedness problem can be resolved beyond maneuvering; the international situation, and within that, Soviet foreign policy significantly differ from the situation of a few years ago, and it is not at all clear why society would be willing to make repeated, new sacrifices for a better future which has been promised to it a number of times before.

### Official Market Economy Platform Disputed 25000120a Budapest FIGYELO in Hungarian 9 Feb 89 pp 1, 4-5

[Article on round-table discussion including Economic Consultative Council secretary and representatives of various alternative organizations, by Gabor Karsai: "Whose Program is This?"]

[Text] To what extent do various social movements and organizations regard the market economy platform of the Economic Consultative Council [GKB] as acceptable? [FIGYELO, No 49, 1988] FIGYELO sought answers to this question when it invited representatives of a few new types of organizations for a roundtable conference. The GKB was represented by committee secretary Laszlo Antal. The other participants were: Lorand Eotvos University of Sciences philosophy faculty Laszlo Tuto from the "Left-wing Alternative" Association; Lajos Kosa, a fifth-year student at the Karl Marx University of Economics, on behalf of the Association of Young Democrats [FIDESZ]; Central Statistics Office official Gyula Fekete Jr. on behalf of the Hungarian



Democratic Forum; Research Institute on Cooperatives official Mihaly Laki on behalf of the Association of Free Democrats [SZDSZ]; New Hungarian Central Archives official Ivan Peto on behalf of the Scientific Workers Democratic Union [TDDSZ]; and Financial Research Institute, Inc. official Laszlo Lengyel representing the New March Front. Gabor Karsai moderated the meeting on behalf of our editorial offices.

[FIGYELO] From the standpoint of organizations represented at this meeting, is the GKB platform acceptable in part, or in its entirety?

Peto: Although I have discussed the material with a few of my associates at the union, quite naturally there has not evolved a unified TDDSZ position on the matter. Thus I will be able to compare the statements contained in the platform only with the values, the standards formulated in TDDSZ.

What's the situation on the "other side"? The GKB is an advisory committee after all, which prepared theses for use by its working subcommittees. It is unclear to what extent the government, and mainly the MSZMP would espouse those positions.

[FIGYELO] We all know that this is not the official program of either the government or the MSZMP. Nevertheless it is a fact that from its beginnings, the committee was headed by deputy prime minister Peter Medgyessy, and now by Politburo member and minister of state Rezso Nyers. This should suggest that the committee's workings are indeed taken seriously by the segment of political leadership which favors reform. And I assume that the program would become successful if it gained the increasing support of various strata of society, or at least the understanding of these strata. This conversation too has as its purpose to find out the extent to which the platform is favored by politically active organizations.

Fekete: A narrow group of economists within the Democratic Forum has discussed the theses propounded by the GKB. We are in fundamental agreement with the precepts. Nevertheless, a long-term program must be linked also to ethical principles. With the development of a market economy we are witnessing the beginning of a new era. It is possible that we will have to forget about the distribution [of income] according to the work [performed], about full employment, and about the partly "illusory" principles of distribution according to long-term needs. These, however, are the typical attributes of a socialist system, and therefore it appears as a paradox when the MSZMP expects alternative organizations to espouse socialism. What kind of socialism?

Some within the Forum hold the view that we must know in whose interest it is to introduce a market economy. Those who enriched themselves during the past four decades as a result of the monopolistic market position or because they managed societal assets as if

those had been their own—after all, they are in a good position to make investments. To a majority of the population this alternative of an entrepreneurial-market socialism does not look too encouraging, at least no in the short run.

[FIGYELO] But do you envision anything more favorable?

Fekete: No. And that's why I agree with the introduction of a market economy.

Tuto: It is likely that my organization is most critical with respect to this material. We agree that the way out of the crisis must be linked to improved efficiency and productivity, and we are critical of excessive centralization and redistribution. In the medium range, we too are thinking in terms of a mixed economy, we find it necessary, however, that along with the state and the private capital sector—and this is the key issue—experiments be made also with a direct societal sector.

The [GKB] material traces the present crisis fundamentally to the natural laws of the economy. In our view the crisis is a result of a society which is stratified on the basis of illogical spheres. We believe that the solution rests with a reform of the entire social structure. The experience of partial reforms during the past decades—the kind of reform the GKB proposal represents—contributed to the preservation of the existing structure, despite their intentions.

Laki: The SZDSZ has not yet adopted an economic program. There was established an expert group of economists however, which will develop the chapter on the economy for our national conference. Therefore, for the time being, I can only present critical remarks, and not a conception that is better than the one proposed by the GKB. As an aside, however, I will add that an organization which on a long-term basis perceives itself as one that does not participate in governance, can allow enjoy the luxury of not only propounding some counter-salvation theories, but also to reflect upon certain issues which it considers as debatable, on the basis of values and principles espoused by the organization.

Antal: This is not so! As economists we have the right to analyze processes as outsiders, and to satisfy ourselves by exerting criticism. As a political organization which endeavors to influence the future, however, we would have to surrender this right, and it would be our duty to adopt some positive statements.

Kosa: We reject this argument. We are aware of the fact that if for no other reason, just because of our [young] age we would not be able to develop a viable economic policy program, nevertheless we expect to have a right to comment on such a program.

Lengyel: It is also my view that it would not be politically indecent if an organization rejects a demand—which is,

at the same time a shifting of responsibility by a party and a government which has been in power for decades, and therefore is responsible for the crisis and for the lack of perspective—not only to criticize but also to say something constructive. In saying this I do not want to suggest that these organizations should not have a program. To the contrary. Everyone in the New March Front believes that in the near future the intellectual community should deal with the possible methods of establishing a market economy and to bring about political reform. Nevertheless I can justify a passive attitude.

Antal: Several persons present at this meeting are aware of what I have been stressing for almost a decade and a half. This country will go bankrupt within two or three years, unless we make radical changes in the way things are. But such change is inconceivable without determined governmental conduct, political commitment and professional foundations. Three years ago, in working on "Turnaround and Reform" those involved felt that it was quite natural that reform could be accomplished jointly with the government. Today I cannot but feel that many in the alternative organizations do not believe so, and that they do not intend to cooperate with the government. I view this as a political mistake under the present economic circumstances.

Laki: Except for the fact that cooperation has a delicate political aspect. When those in power are in trouble, they call for national cooperation. When they are not in trouble they want monolithic power.

Tuto: This is a conduct naturally manifested by those in power. It can be terminated only in conjunction with the separate apparatuses.

Laki: True, but this then suggests that if the new organizations have any brains, they will not agree to share responsibilities as long as they cannot share power.

Antal: This means a multi-party system, and I agree with the need for such a system. But we can get out of the present crisis only if some kind of cooperation evolves among those who hold power.

Peto: I can only repeat my previous question: whose program is this? Namely, it does make a difference whom the so-called alternatives provide assistance to when they sit down at a table and begin to debate. We know of Laszlo Antal that he too believes ["thinks"] what the material contains ...

Antal: ... only its essence, because the platform also contains compromises ...

Peto: ... but we cannot disregard the fact that the practice followed by the MSZMP and the government is not identical to the principles contained in this material. We always had committees during the past 20-25 years. Even those holding very different conceptions would have sat down to negotiate with their leaders and members. But

then, they would not have permitted the use of their names to what actually evolved out of the conceptions propounded by these committees.

The material to be debated by us here—and I am deliberately using the governmental term "material,"—is not addressed to society or to the alternative organizations. It intends to convince the party and the state apparatuses that an economy pursuant to the principles contained in that material offers a functional economic solution to our troubles.

Lengyel: It is worthwhile to recall the history of this material. In the framework of the September 1987 governmental program Karoly Grosz promised to establish a reform committee similar to the one established in the 1960's. The essence of this method is that reform is being prepared with the exclusion of society, and that the final version of the material takes the shape of a resolution by the party or by government. Laszlo Antal—and we should note here that the yet unpublished, more detailed version of the platform is his work—finished the first version of his study in April 1988. But the subcommittees came into being only 6 months later. This manifests uncertainty on part of the political leadership. This committee game—we might as well call it reform dictatorship—appears as an impassable way also because compared to 1965-1966, the feeling of being honored, the enthusiasm is lacking; while the work organization lacks political determination and a commitment to work with tight deadlines.

Antal: Unfortunately, to a large part I must agree with what Laszlo Lengyel had to say. When I accepted the secretarial post at the GKB, I did so without receiving a guaranty as to whether the political leadership wants to, is capable of implementing the things I want. On the other hand, I regard the statement concerning the exclusion of society as untrue, because the openness of our workings is far greater than before.

[FIGYELO] The main concern of those present is that the MSZMP and the government are still uncertain even insofar as terminology is concerned, as to whether they can identify with this platform. But if they could, would they be choosing the proper conception? In other words: are you in agreement with the substance of the GKB theses?

Laki: The issue of property, and the relationship of the MSZMP within the enterprise and generally, in the economy is obliterated in the material. Ownership rights—if we accept the fact that this represents disposition over an alien workforce and over capital—is exercised in Hungary in part by the party. Let's just think about the plant quadrangles, the instructor system and about the list of authorities. Corporate law cannot accommodate a hidden owner who does not hold stocks and thus can neither lose or gain, nevertheless carries a serious weight in the making of decisions. An expression of this concept is missing from the material.

Antal: How come it's missing? The decisive chain link of the conception is that property must be severed from the party and from the state.

Laki: This, however, is not expressed directly.

Fekete: According to the platform "party organizations and their apparatuses do not interfere with business decisions," and further that it would be useful to review the authority of cadres, and that the public should be informed wherever such authority remains. More radical wording than this should be used.

Peto: This idea is tied to perceptions that evolved prior to the May party conference. At that time it appeared as great progress that within a single-party system a program professed a reduced role for the party. Statements which advocate that in the framework of planning the party should retreat to the preliminary stage of formulating conceptions, amounts to no more than empty words. After all, if the party feels responsible for the implementation of the conception, it will involve itself in the processes, as long as it has an opportunity to do so.

Antal: Assuming a single-party system, the party's role can be no less than what is stated in the platform. Accordingly, the question is whether we are talking about a single-party or a multi-party system. In my private capacity I was able to state in NEPSZABADSAG that I was in favor of a multi-party system.

Peto: If I had been in Laszlo Antal's place when the platform was prepared last November, I would not have projected a multi-party system either. But by December, when the platform was made available to the public, preparations for a multi-party system became a reality.

Laki: In addition to the role of the party which has not been clarified, the other chief problem I have is that the material is competition-neutral, and presumes from the outset the dominance of communal property. There is a chance that this will be so, but we can't tell in advance.

Antal: True.

Laki: The meaning of the term "communal" is also unclear. I feel that the material interprets this as state banks and pension funds, but it is unclear whether private banks and private pension funds could be established.

The material does not address CEMA, whereas it is publicly known that the relationship that evolved in this regard is based on a logic which is completely different from that of the marketplace.

Antal: This issue is dealt with in the additional material, and a separate working committee is handling the problem. Unfortunately, at the time the GKB decided to publicize the theses, it did not feel that publication of the existence of committees dealing with CEMA would be justified.

Kosa: It is my feeling that the mark of economic blindness has been placed also on this reform conception. This is so, even though the past 20 years have proved that economic reforms break down when confronted with the economic, political and power structure. It should be stated that economic reform must have its start in the rearrangement of the political institutional system, and the economic program should be linked to the principles by which such rearrangement is made. Little of this idea is conveyed in the platform.

I regard it a problem that reform is based on economic actors which are impoverished by virtue of the stabilization process. In order to retain solvency, the government plans to have a foreign trade balance which withdraws profits from enterprises and tightens the inflationary pressure on the population.

Antal: Why, who else could carry the burden?

Kosa: I am only stating the facts.

Antal: Nothing else can be done. Anyone from among those present would not be able to do otherwise.

Laki: Well, nevertheless the process has some winners and losers.

Antal: In reality the bulk consists of losers. When, for example, we are cutting military expenses, we also see a reduction in some very profitable exports, which will produce a rather significant loss of budgetary revenues, and which may lead to layoffs. We cannot rule this out. Accordingly, if I prepare an accounting, I find that the few billion forints reduction in military expenses will be far from improving the financial balance at a similar rate, and will not alleviate the inflationary pressures on the population either. By having said this I do not intend to suggest that military expenditures, and inefficient activities should not be reduced. All I'm saying is that things are rather complicated, and that decisions which appear as rational in the medium range, will produce some unfavorable short-term effects, which in turn worsen the chances of their public acceptance.

Tuto: If the recommendations contained in the platform become a reality, they will be accompanied by social conflicts which cannot be resolved by any political leadership.

Peto: I am concerned about the fact that whenever the platform discusses crisis, it does not state clearly what the crisis consists of, and relative to that, what took place during the Grosz era.

Consuferred with my union associates, a number of them stated that even if they had not known, they could have figured out that the platform was Laszlo Antal's work product. Namely, the category of indirect systems is his hallmark. This category, however, does not suffice in regard to describing the present condition, many



things, and in an increasing number take place in a manner so that even the center is unable to follow, and is unable to manage even in an indirect manner.

Antal: Also this viewpoint is reflected in the platform. The indirect system worked more or less beginning with the Czechoslovakian invasion, i.e. the late 1960's, until the early 1980's, until the emergence of the debt crisis. Then it began to fall apart. In and of itself, however, this process leads only to anarchy, not to the development of a market economy. Another reform is needed to accomplish the latter.

Peto: So then, the only debatable issue is whether the indirect system was realistic at all. This difference in viewpoint, however, becomes timely by virtue of the fact that it seems that the platform treats the desired changes as something that could be settled from the top down, and as a result disregards proprietary forms which organize differently—possible self-management, communal ownership, small enterprise are not mentioned at all.

Antal: There is a clear-cut statement concerning the latter: during the past decade excess national income was derived exclusively from that source, while as a whole, the socialist sector managed by us stagnated and went bankrupt. Is it necessary to say more?

Lengyel: Also something positive should be stated. Missing is an analysis of why the development of the small entrepreneurial sector came to a halt, and missing is a program outline for the stimulation of enterprising.

Fekete: In the context of competition-neutrality one should endeavor to contribute state custodian's dividends or a fixed contribution on the assets used should be contributed to the budget. This would render the advantages of public ownership spectacular, since tax payments by businesses and by employers would be reduced. Cooperative property too should produce an income, so that over and above the wages paid out for work performed, the membership would be able to receive payments taxed only at the source [sic].

Peto: The platform is one-sided insofar as it emphasizes the establishment of large enterprise stock corporations. An examination of the special aspects of agriculture and of cooperatives is also missing.

And last but not least, the entire concept of a socialist market economy is confused. Whatever is contained in the platform concerning the adjective "socialist," or what Rezso Nyers had to say about it at the FIGYELO roundtable (No 50, 1988), or, if you will, what GKB deputy chairman Miklos Pulai had to say on the subject in OTLET (No 51, 1988) did not help clarify the confusion.

Antal: If we read what the platform has to say about the socialist market economy we find that there is no difference between a socialist market economy, and a market economy without using the "socialist" adjective. The

adjective remained in the text as a result of a compromise. Most likely, in the future we will refer to this category without the adjective.

Lengyel: I too believe that the "socialist" adjective is confusing. I agree with Marton Tardos; we either recognize that there exists a global economy and a world market—and in this case the adjective makes no sense,—or we don't, and in this case the words "market economy" do not make sense. [The platform] should also discuss the positive side of this category, after all, the proclamation of a market economy as a goal is significant news. Similarly, an important new element is the perception of property in the form of capital property. I too share the view that autonomous management is missing from the platform, from the standpoint of returns, however, autonomous properties too must be brought to operate as capital. And if, from a market standpoint the autonomous model is not able to survive, it will have to fall, even though I would regret to see that. At the same time, relative to the reform of property, the experience gained from actual changes that took place in the 1980's should also be analyzed. These include autonomous enterprises, small enterprises, stock corporations. We must endeavor to accomplish organic development.

The third novelty contained in the material is that this was the first time that an official material published by the government says something about political reform. Propounding the concept of a self-restraining party was a heroic deed last April. It is no coincidence that it was not published in those days. By now, however, the events have transcended this conception.

The fourth novelty is the liberalization program. FIGYELO presented a number of articles critical of liberalization, and I agree with these. I view it as tragic that while the reform experts of government were busy with "libero" [sic] which was dead in its ashes, today the government has no economic policy program whatsoever. For example, I do not see a program which deals with debt service payments which will take a leaping increase around 1991-1992.

Fekete: We too miss the fact that no program has evolved for our debt management. In this context, however, we must also take into consideration that if we suddenly dumped on the market stock issued by Hungarian enterprises, Hungarian assets may be devalued greatly.

Antal: We hardly have to worry about that, considering the amount of interest expressed by foreign capital.

Lengyel: The assets of domestic enterprises transformed into stock corporations are generally devalued. This is realistic, based on their income producing capacity.

Tuto: Departing from those who spoke before me, I view the GKB material not as a theoretical platform, but as a



writing of tactical character. This is revealed in a position taken by the GKB, which says that it serves no purpose to wait with professional work until the theoretical foundations are settled, the two must be pursued in parallel. Quite naturally, one should not hold off with extinguishment when there is a fire, but one cannot permit constrained improvisations to be declared later as theoretically well founded. This work method—pardon me for the comparison—is reminiscent of stalinist processes, which tried to elevate individual practical measures to the rank of theory after the fact. The situation is similar in regard to the socialist adjective. It is characteristic of stalinism that it always designates as socialist whatever prevails at the moment, even if such matters are completely different from phenomena which were called socialist before. In my view, we may talk about socialism only if we are able to produce a more efficient method of production than what the capitalists have.

Just as it is untenable from the standpoint of methodology that theory does not enjoy primacy over current political practice, it raises concern that according to the platform, the whole of social policies does not determine one of its subsystems: economic policy. Instead, the platform envisions the possibility that these two, namely social policies as a whole and economic policy can exist independent from each other.

Antal: Only Stalinist conceptions hold that the whole determines its parts. One cannot optimize all the subsystems from the center, because these subsystems have relative autonomies.

Tuto: I have two theoretical disagreements with the market economy conception. On the one hand it is not humane, on the other it contains elements of inefficiency. The former means that the conception is totally devoid of the human being. For example, within the system of economic policy goals the conception establishes adaptation to the global economy as the first priority, while in my view that should be a subsidiary concern as compared to the satisfaction of needs.

Antal: Satisfaction of needs is a trivial concept. It all depends on how it could be realized best.

Tuto: If we enforce the exclusive standpoint of profitability, bakeries will be forced to produce pornographic cassettes for instance, because that is more profitable.

Antal: Also Stalin said that. He used the example of the light industry and the heavy industry.

Peto: I believe that my fellow participants will agree if I say that although we feel that there are many voids in the GKB platform, and that we have many reservations, in our debate with the Left-wing Alternative we support the concept of a market economy. I would be curious to learn what elements of the market economy concept cause inefficiency.

Tuto: For example: proprietary monopolistic situations, as understood in the legal context, rule out the functioning of national resources at an optimal level of efficiency.

[FIGYELO] I can tell that several of you would argue with this view, but let's not get into this now.

Lengyel: We have not mentioned that the platform does not deal with budgetary reform issues, and with the problems of education, health care and social security. These cannot be avoided, particularly if we want to link the existence of pension funds with the changing of the proprietary system.

Peto: Not too long ago I read a report in NEPSZABAD-SAG concerning a meeting of the MSZMP Economic and Social Policy Committee. According to the report the socio-political conception is halfway finished, because the fundamental values have taken shape. It amounts to very little if this is the case indeed. And even this is reflected in the platform only in part.

Fekete: The actors in the marketplace do not hold equal ranks. It should be an accepted fact that labor too is merchandise, meaning that the owner of labor could deduct the societal minimum of existential expenses from his income—the costs of the upbringing of children, social security fees—and he should pay taxes only after what is left thereafter.

Social policies should be based on market principles as much as possible. I, for example, perceive a social security system, in which I would be obligated to make contributions, nevertheless I would have a choice as to where I want to invest my money—to the fund which invests my money in the best way, and therefore pays the most in case of illness or when pension payments are due. A competitive situation like this could have the potential of creating proprietary interest with respect to pension funds.

Antal: I agree with these suggestions. In terms of social policies we have a choice of several logics to follow. From among these I would by all means rule out the forcing of "achievements", i.e. the broadening of enterprise social policies; socio-political benefits which produce greater benefits for persons earning a higher income, moreover, I am really not inclined to favor benefits based on the right of being an employee. Insofar as the near term practice is concerned, unfortunately we must not think in terms of an idolized welfare system. Instead we must concentrate our scarce resources on the most endangered groups, strata and generations, so that persons most in need receive more benefits.

Kosa: The platform does not state that clearly. We were unable to take a position in regard to whether fewer should get more, or more should get less socio-political benefits.

[FIGYELO] At the FIGYELO roundtable discussion we mentioned already, Rezso Nyers stated that the alternative organizations should be drawn into the analysis, into the formulation of conceptions, and that their perceptions should be permitted to bear influence on the reform conception which is taking shape. Since then, Rezso Nyers became the chairman of the GKB. Can you envision such cooperation?

Laki: This is only my personal view. I would be very cautious about a coalition even in an intellectual framework. I have seen many bad situations when people participated in one or another committee just to discover that their opinions were not even included as minority views.

Fekete: Just how much of what we want will be actually achieved is a matter of bargaining. It is worth participating if only a little bit of it comes true.

Laki: I don't think this is so. Alternative organizations enjoy credibility within certain groups of society. Thousands, tens of thousands of people have expectations from these organizations. We must treat this political asset delicately. A kind of cooperation in which this political asset is simply transferred to the political power and does not produce benefits for us, would constitute a political mistake. There are no guarantees that we would not emerge as losers from the coalition.

Kosa: I am in substantial agreement with Mihaly Laki.

Fekete: In my view, we could cooperate with the GKB, and there is great willingness to cooperate among the members of the Democratic Forum. Such cooperation, however, should take place in a manner so that we do not make the mistake the old trade union did, namely, to negotiate behind the scenes, of which nothing is seen by the membership. We should preserve our faces, but we should be prepared to make a compromise.

Tuto: It is my personal view that our job is to develop alternative conceptions, and then let the committees use these as much as they can.

Peto: In the framework of trade unions the idea of a coalition-like cooperation does not even occur, nor does participation in the workings of an internal committee. The only possibility is to reconcile interests openly in the course of negotiations, based on clear-cut rules, while retaining the different positions. The TDDSZ board, together with independent trade unions has recommended already in January the establishment of an Economic Constitutional Council. Perhaps because this statement was made in the context of criticizing the strike law, the Hungarian Telegraph Office [MTI] reported this only after it was noted by the Openness Club.

Lengyel: Last year, when Imre Pozsgay made an offer to negotiate with alternative and opposition groups, Janos Kis, one of the well known members of the opposition

put the terms of negotiation in writing. These included the publication of the fact that negotiations take place, publication of the proceedings, negotiations pursuant to an agenda, and an agreement that comments can be made concerning the negotiations. They could not reach an agreement. But it is in this manner that conditions of cooperation must be settled in regard to specific instances.

Aside from that, the alternative organizations too made some initiatives, such as sending their documents to the government.

Antal: And the government apparatus must respond to every recommendation. But even the alternative initiatives include some expressly irresponsible suggestions. For example if we were to accept the indexing proposal advanced by part of TDDSZ, the country would probably go bankrupt within a short period of time.

Laki: Insofar as I am concerned, Peter Medgyessy's remark at the FIGYELO roundtable was repulsive already. He said that alternative organizations enjoyed an opportunity to exert criticism without responsibility. It was repulsive, because [this] irresponsibility is spread evenly throughout the population. A government, over which there is no real control, may also act irresponsibly.

Lengyel: Recently the New March Front recommended to the MSZMP and to the alternatives to establish a national committee on a nationwide basis. The essence of this would be to institute a forum in which individual organization carry equal weight in debating constitutional issues. It would be worthwhile to establish a forum in which various organizations could negotiate the issues of reform and of economic policy under guaranteed openness.

**Undeveloped Economy Attracts Austrian Business**  
25000146c Budapest VILAGGAZDASAG in Hungarian  
14 Feb 89 p 7

[Article by Zsuzsa Foldvari: "Austro-Hungarian Joint Enterprises Flourish: What Makes Us Attractive?"]

[Text] The role of East European countries in the external economic relations of Austria is once again on the increase. Not only mercantile trade is growing. Vienna has also attached serious hopes to joint ventures. About half of the ventures realized thus far operate in Hungary. GEWINN, the Austrian economic periodical reports the experiences and future prospects of these joint ventures. Of interest from the Hungarian standpoint are the comments concerning Hungarian rules, and the advice given to Austrian enterprises. Although the analysis finds cooperative opportunities promising, and our rules for cooperation liberal, it sees the real advantages provided by Hungary in Hungary's lack of development. This includes our eagerness to obtain foreign exchange, our low wages, obsolete technology, decrees pertaining to

employment which reflect the interests of entrepreneurs, and last but not least the fact that standard regulations may be frustrated if one has the right connections.

In praising the wave of economic liberalization in CEMA countries, an expert of the Bundeswirtschaftskammer [Federal Chamber of Commerce] of Vienna estimates that Austria is participating in 80-100 joint enterprises in Eastern Europe. This expert hopes that the number of joint enterprises will increase as a result of the toppling of decades old taboos. He stated to DER STANDARD that relative to Eastern Europe, the term "mixed-nationality joint enterprise" today acts as magic in the West. But he instantly cautions that readers should not overestimate the opportunities, reminding that entrepreneurial initiatives in the past have failed more than once.

It is known that Austrian financial authorities want to liberalize their foreign exchange management. The measures to be implemented in three stages serve several purposes: to strengthen the schilling as a hard currency; to prepare for the perceived integration with the EC; and to simplify deregulation and financial management. The measures that go into effect in February permit Austrian citizens to make long-term foreign investments without interference by the Austrian National Bank, irrespective of whether such investments involve securities or real estate, independent entrepreneurial undertakings or participation in existing enterprises.

This is good news for entrepreneurs who have or are preparing to have business relations with Hungary, and who have expressed a strong interest in Hungarian entrepreneurial opportunities even in the absence of these measures. The 50 joint enterprises already functioning have served as sufficient ground for GEWINN to present Hungarian economic opportunities and the new regulations presently gaining force as the topic of its cover story in its first issue this year.

#### The Experiences of the Pioneers

The newspaper reports on the experiences of the oldest, the best, and the largest capital intensive joint ventures in Hungary: Eternit-Werke, IBG, Henkel Austria, Ottakringer, Porr, Meinel and Blaguss. Eternit-Werke was surprised that it was able to establish its joint enterprise quickly, between Easter and Christmas. (It is worthy of mention that for Herwig Hadwiger it took only three weeks to realize a business opportunity from the time he saw Hungarians in Vienna carrying huge packages until he opened an electronics store in the border town of Nickelsdorf.)

Reverting to Eternit, the newspaper finds it a generally worthy endeavor for foreigners to contribute capital and know-how to joint enterprises, because in this way the foreign investor can make use of machinery which as a result of market conditions have become more or less obsolete in Austria. Henkel, whose successful ventures

include Fa cosmetics, Pico Bello shoe polish, and Minna—which is a variation on Persil [brand of detergent]—believes that more Austrians should enter the Hungarian market, before the Germans arrive. According to the president of Henkel there exists a surprising similarity: Profits and performance are valued greatly in Hungary despite the difference in economic systems.

Ottakringer's head, who is of Hungarian descent, is far more cautious and skeptical. Although he is satisfied with his partners, he has not fallen into a gold digger's mood. He blames the Austrian government for failing to reach an agreement with his partners, one that is similar to the agreement reached by the Swiss. The Swiss agreement provides for a Hungarian state guaranty to Swiss firms that their investments will not be lost.

Siemens, the first joint venture established in Hungary in 1974, developed a certain enterprise culture of its own. This culture does not emulate the Western pattern, instead it adapts to the Hungarian environment. In Austria, for example, certain business activities are prohibited by law on weekends. In contrast, in Hungary public bodies expect client services at all times.

[Executives of] the Porr construction firm whose latest undertaking is the 3-star hotel on Budapest's Kalvin Square, recall with satisfaction how stunned the Hungarians were when their first venture was completed on time. The secret of timeliness was that Porr, the lead contractor, paid Hungarian subcontractors in foreign exchange, and thus was able to select from among the best firms. According to the head of Porr, Austrian construction firms in Hungary today are in keen competition with each other, just as they compete in Austria, and as a result of competition they "simply lowered their prices."

Establishing commercial joint enterprises takes more time than the establishment of industrial joint enterprises. Meinel's experience is that "in Hungary sales never cause concern. Instead it is the difficulty of obtaining merchandise that presents problems."

The largest, 60 percent Austrian-owned Blaguss travel enterprise whose success may be attributed to clever foreign exchange management has made it possible for Hungarians to pay in forints.

GEWINN was also curious about the opinion held by the Hungarian expert of the world renowned advertising firm Ogilvy & Mather. "Particularly the small and medium-sized firms have a good chance of not only acquiring a foothold in Hungary, but also to obtain reliable profits." He cautions enterprises planning to concentrate exclusively on the internal Hungarian market. This is based on the fact that the internal Hungarian market does not have access to foreign exchange, and thus the danger exists that the profits, although they might be taken out of Hungary, will be in forints for a long time to come.



### The Advantages of the Hungarian Market

Entrepreneurs should be interested in the advantages presented in the form of a bouquet by GEWINN. Among these low wages are of the greatest significance. It is easy to pay good wages to Hungarians, or to give them an Intershop voucher as a premium, or to provide them foreign travel. The so-called labor friendly employment and social security provisions are also advantageous. These are a clear-cut 40 hour work week and the relatively short [paid] leave.

GEWINN recommends that the Austrian directors of joint enterprises accept only a minimum part of their salaries in forints, because their forint income is subject to more stringent income taxes than the schilling earnings in Austria. They should stay away from using ostentatious cars, because these serve to create envy in Hungary.

The analysis welcomes the operational rules provided for joint enterprises, and particularly the one which provides a 5-year tax exemption to activities deemed important, and even thereafter they pay 60 percent less in taxes than joint ventures engaged in activities which are not deemed important. They are also happy about the provision which permits foreign partners in joint enterprises to remove earned and taxed enterprise profits from Hungary in the form of foreign exchange, in amounts proportionate to their participation.

But experts believe that there is a big loophole in the law. Notably, the law conditions the transfer of foreign exchange by requiring the enterprise to have the financial backing for the transfer. Accordingly, by extending this provision it could be required that the transfer of foreign exchange from Hungary is possible only if that profit was earned in foreign exchange.

Supposedly, the Hungarian government will not just stand idly by and watch joint enterprises producing forints on the Hungarian market while foreign exchange is taken out of Hungary. It is for this reason, according to GEWINN, that those involved in joint enterprises obtain contractual guaranties to the effect that they may transfer their profits out of Hungary in the form of foreign exchange.

Altogether then, the newspaper finds the profit-making opportunities for Austrians extremely attractive, which is further improved by the agreement concerning the avoidance of dual taxation, and by the Hungarian government's generous tax policies. This enables Austrian entrepreneurs to take home their gross profits as net profits.

A separate paragraph of the report deals with the Hungarian shopping siege in Austria, and concludes that the siege will continue also in this year. It is not that the newspaper considers real wages to be too low, but insofar as certain electronic products are concerned, Hungarian households

are in short supply, and what is even more encouraging to Austrians: there is 17.3 billion forints worth of foreign exchange in Hungarian private accounts.

### The Secret of Success

GEWINN also ventured to summarize for joint enterprises the basic rules of the game to be followed in the interest of long-term success. It views the choice of an appropriate partner as most important. This, of course is a matter already understood by everyone, nevertheless it is important that Austrians deal with a Hungarian partner who has good connections with the government. This is so, because even though the operating rules are fundamentally liberal, the resolution of a number of problems can be made easier if special treatment and exemptions from under the rules can be obtained.

Essentially it is this special system of relationships, and the knowledge of the local, political and social environment which constitutes the know-how of Hungarians, and this know-how is valuable enough to warrant for Austrians to prefer a joint enterprise form rather than a 100 percent foreign owned enterprise.

As soon as a partner is found, the sphere of activities of the joint enterprise to be established must be defined. According to GEWINN, the sphere of activities should be as broad as possible. Namely, it may be useful for a joint enterprise to decide in what field it should specialize after it began operations, rather than earlier.

As soon as the joint capital, the joint management, the joint legal basis, the joint staff, and the joint work plan are established (in regard to the latter it is useful if the joint enterprise takes into consideration the guidelines provided in the 5-year plan), the joint enterprise is approved. Since January, the approval process has become much easier as long as the foreign ownership share is less than 50 percent.

While in most countries of the world familiarity with the country's language is required, in Hungary it does not constitute such great a disadvantage if the Austrian partner does not speak Hungarian. Many Hungarians speak perfect German, young people also speak English, and aside from that, it is always easy to find interpreters. (The shortage of salespeople speaking Hungarian represents a greater concern in Austria.)

Reverting to things to be decided, there remains the issue of financing. An economically rational enterprise has no financing problems, according to GEWINN, nevertheless it makes an interesting recommendation. The newspaper says that despite perestroika and glasnost the Hungarian political situation is not as stable as it appears to be on the basis of euphoric statements. Therefore, Austrian firms investing in production are wise to choose the lease financing form. A majority of the firms follows this path.



Let us take for example a joint enterprise started with 10 million forints basic capital, and in which ownership is shared on a 50-50 basis. And let us say that this joint enterprise requires machinery worth 100 million forints. The two parties purchase machinery for 10 million forints, while the remaining 90 million forints worth of machinery is obtained from abroad, for example from an Austrian leasing firm, with a Hungarian bank serving as an intermediary. The advantage is obvious: The risk is assumed by the foreign leasing firm. In case of bankruptcy or changing political conditions the leasing firm repossesses the machinery and makes use of it in a different way.

The newspaper also views the preferable leasing of used machinery as a rational consideration. It is cheaper, and it still represents peak technology in Hungary.

An Austro-Hungarian joint enterprise cannot open a foreign exchange account. It can only open a foreign exchange forint account. This must be taken into consideration when making calculations. In a foreign exchange forint account the joint enterprise's money is recorded in forints, nevertheless it may be converted to foreign exchange at any time. In this way, however, the joint enterprise is exposed to the danger of a forint devaluation. Accordingly, a foreign exchange account, available as a result of exerting great efforts, represents a better solution. The final sentence of the GEWINN report states: This is a task which must be accepted by the Hungarian partner.

#### **Distribution of Budapest Welfare Funds Questioned**

25000148a Budapest NEPSZAVA in Hungarian  
2 Mar 89 p 8

[Article by Katalin Torok, including interview with Dr Gyorgyi Ferenc, head of the sociopolitical division of the Budapest 9th District: "How Much Can Welfare Assistance Buy? The Earth Began to Move"; date and place of interview not given]

[Excerpts]

[Passage omitted]

#### **No One Has Been Rejected Yet This Year**

Inflation is high, barely two months of the year have expired, yet we experienced two price increases already. I asked Dr Gyorgyi Ferenc, head of the sociopolitical division of the Budapest 9th District, whether the amounts available for welfare assistance were increased.

[Passage omitted]

[Ferenc] Barely! Moreover there are purposes for which there are less funds than last year. Drastic pharmaceutical

price increases have touched the senses of our pensioners—in Ferencvaros there are many old, obsolete apartments. There are many who can heat only with electricity, they present us with 2,000 and even 3,000 forint electric bills. I felt terrible when I heard the Minister's radio statement following the pharmaceutical price increases that assistance may be sought from the districts. To this day we have not received those funds! On the other hand, we cannot tell people in tight financial situations that we have no funds. Therefore we give them advances from existing funds. In January of this year we received far more requests for assistance already than last year during the same period. It is not difficult to figure out that in another six months we will run out of funds. We hope to receive that 100 million forint supplemental funding which the City Council will allocate among the various districts.

Incidentally, I inquired also at other districts, and found that after distributing last year's supplemental funds, there was money left in many places. Not a penny was left in Ferencvaros. I learned that downtown per capita assistance amounted to 4,000 forints, while in our district it did not amount to even 1,400 forints. In my judgment, the funds distributed in an unjust manner last year should correspond with the needs. Not all districts experience identical situations. As Council workers we must face the people, and we cannot send them away. This year many people whom we have not seen before applied for welfare assistance. We are not refusing anyone, we feel that we cannot refuse someone in need. At this point we feel as if the Earth had begun to move.

[Passage omitted]

[Ferenc] We should make home environment investigations in each and every instance. But since we have only four persons for this purpose, and since Ferencvaros is large, this would mean a very large effort—150-200 home environment investigations per person, per month(!). Not to mention the fact that special assistance must be provided fast, it must be settled in three days. Our welfare workers too are human beings, and it is rather easy to figure out that a decisive majority of these people are also in need. We maintain regular contact with nurseries, kindergartens and schools, and thus we find out when a family experiences trouble.

We are far from having seen the end of the 1989 price increases, yet already at this point several strata fell in the category of welfare applicants. At the moment everyone pins his hopes to that certain 100 million forint fund, which appears as the magic weapon. To what extent and for what purposes will these funds be sufficient? And one wonders how that fund will be distributed this year. To use refined terminology: one need not be a sociologist to understand that the composition of downtown is different from that of Ferencvaros.

**Computer Viruses, Protective Measures Noted**  
*25000121b Budapest FIGYELO in Hungarian*  
9 Feb 89 p 6

[Interview with Arpad Kassay, chief division director, Instrumentation Technology Small Cooperative, by "T.G.": "Viruses in Computers"; date and place not given]

[Text] Thus far we read reports about the occurrence of viruses which damage computers only in countries where computer technology is far more advanced than ours. These viruses are computer items, mostly programs which disturb the functioning of the computer system, unexpectedly stop the program, damage or destroy data stored on magnetic disks, etc. Unfortunately, as of today it is a fact that Hungary too has some contaminated machines and software. Professionals are sharply divided on the issue of whether the computer users' panic, or the actual danger is greater.

Recently a computer small cooperative began marketing "antivirus" and diagnostic programs which help discover viruses. It did so—a great advertising catch!—free of charge. We questioned Arpad Kassay, chief division director of the Instrumentation Technology Small Cooperative:

[FIGYELO] What caused the sudden emergence and spread of computer viruses in Hungary?

[Kassay] Computer viruses did not just appear now. But in earlier days they were not designated by such a fitting name borrowed from biological sciences. They called them, e.g. "logic bombs." Already a decade or two ago there were known programming tricks which could destroy data bases. In this way, for instance, a programmer could take revenge on his employer, if he was fired. In Hungary, these damaging programs showed up only in recent years, in conjunction with the proliferation of personal computer networks. It is a well known fact that a rather large number of illegally copied foreign programs, pirated programs were brought in to Hungary. These too included some contaminated programs.

[FIGYELO] What damages did the "multiplying" viruses cause in computers made by Instrumentation Technology Small Cooperative? After all, this is why you developed programs which search for viruses hidden in computer memories.

[Kassay] A few months ago one of our computer customers in Nagykanizsa reported to our service unit that the magnetic disk storage unit had broken down. While searching for the fault they found out that the owner of that computer acquired "by hook or by crook" a foreign program which punishes all those who do not pay for it, by giving them a virus. This is what happened to the people in Nagykanizsa, this is why their data stored on magnetic disks was destroyed. Another kind of virus has appeared already at several PC owners. It's been given the name "dropping virus." Its effects are that letters

"drop off," disappear from the computer screen, work becomes impossible, and the system "dies." The economic loss can be measured either in forints, or in lost work time, or by the value of data destroyed.

Perhaps it sounds odd, but the emergence of computer viruses also has positive effects. Obviously there will be much less exchange, much less illegal copying of programs. The software sold by Instrumentation Technology was acquired through legitimate ways from controlled sources. Serious customers should purchase only this kind of software.

[FIGYELO] Is it certain that viruses cannot be acquired from programs originating from "clean sources"?

[Kassay] Unfortunately, that is not certain either. Hungarian computer technicians are aware of the fact that viruses can protect software from illegal copying. There are excellent Hungarian programming specialists in this field. Some of the software houses rely on their work. As of today, one can only guess the consequences of all this. Each week representatives of 20 or 30 enterprises pick up disks containing antivirus or virus diagnostic programs. Ten percent of these do so because they have experienced some odd phenomena and suspect virus contamination, the rest because they are scared.

I believe that within a short period of time there will be a "show trial." A software buyer who suffered a loss will file a complaint against the firm from which he purchased the contaminated program. And that's when the scandal will start.

[FIGYELO] Except for the fact that Hungarian computer technology represents a rather closed world. The detection and proof of virus contamination requires a rather high level of knowledge in computer sciences. Is there going to be a judicial expert capable of dealing with it?

[Kassay] Certainly there will be one or two obsessed "night owl programmers" who will not rest until they find in several thousand lines of text those few lines which constitute the virus. Judicial experts may start out from this basis.

## POLAND

**National Bank President on Inflation, Monetary, Banking Policies**

*26000365 Warsaw PERSPEKTYWY in Polish*  
No 7, 17 Feb 89 pp 15, 18

[Interview with Zdzislaw Pakula, president, National Bank of Poland, by Wojciech Krasucki: "Weak Economy—Weak Currency"; date and place not given; first paragraph is PERSPEKTYWY introduction]

[Text] The people are growing anxious about the decline in the value of the zloty. Rumors about an exchange of money are multiplying. As inflation escalates, the dollar

is becoming more and more the currency in circulation in Poland. How can this be changed? We talk with the president of the NBP [the National Bank of Poland], Zdzislaw Pakula.

[PERSPEKTYWY] In our wallet we carry banknotes bearing the signature of the NBP president. But this signature is steadily dropping in value.

[Pakula] It is not the signature that is losing value, however, due to inflation it is the zloty that is losing its value. Therefore, this is a different reference. The signature of the president of the NBP on every banknote merely fulfills a legal requirement.

[PERSPEKTYWY] But speaking seriously: Everyone would like to protect his money. So, for example, he deposits it in the PKO Bank. But recently some confusion has arisen. The most numerous passbooks accounts, those payable on demand, were to be assigned a lower interest rate than last year. They will remain the same (21 percent), but only until the end of March. What kind of logic is guiding all of this?

[Pakula] In Poland for many years the interest rate paid by banks on personal and business deposits, as well as the rate collected on loans and credits, was simply too low. It did not keep up with the actual inflation...

[PERSPEKTYWY] ...and the people who saved really lost out.

[Pakula] Yes, and we were generally criticized for this. Not only by our customers, but also by the International Monetary Fund and the World Bank. One delegation after another from these organizations suggested clearly that we change the interest rate paid and collected by the bank to make it more realistic. But this realism, when we speak about the population, should mainly apply to time savings deposits.

In connection with this, in 1989 we are completely restructuring the rules on interest rates. We would like to break with the custom, or really the rule, that it pays to borrow money from a bank, but it does not pay to save. The philosophy of the present changes is as follows: It should pay for individuals and legal entities to accumulate spare money, but it should not pay for those who do not manage efficiently, i.e., those who do not obtain a suitable rate of profit, to borrow money from a bank.

[PERSPEKTYWY] But Mr President, let me ask from the position of those people who live off a salary or wages, because after all, there are more of those than there are businessmen: A payable-on-demand deposit is held on the passbook for an average of 6 months. Therefore, should not this 21 percent be retained for the entire current year?

[Pakula] Throughout the world, savings payable on demand either carry no interest rate or the rate is very low.

[PERSPEKTYWY] Yes, but this inflation!

[Pakula] Of course the amount of inflation determines the interest rate on deposits, but we are talking about something else. Our impoverished market is under the pressure of a large stream of money held in the wallet or in payable-on-demand deposits, which is also a haven for this "hot money." People, believing that some item might go up in price, buy it even though they do not always need it. This is frequently an investment which had not been carefully considered. If they are able to get a higher interest rate on time deposits, such purchases will become unnecessary.

[PERSPEKTYWY] Payable-on-demand deposits can carry a high interest rate in the commercial banks now being formed, and in others also. What will PKO do in the face of this competition?

[Pakula] The commercial banks which separated themselves from NBP as credit banks are already competing among each other. But some of them misunderstood their independence and are competing improperly. The credit banks should serve business, and not individuals. They should not be interested in every cent, as is PKO and the coop banks, but should be primarily interested in the investment of large sums of money from business and those persons who can place their money there for 3 or 6 months at a higher interest rate. Those banks offering higher interest than PKO on small deposits, do not understand competitiveness correctly.

[PERSPEKTYWY] What, then, will be the interest rate on payable-on-demand deposits after 31 March?

[Pakula] The NBP president fixes three elements of the interest rate: The lowest, on the credit which NBP grants to other banks, and the maximum rate. The banks, on the other hand, can fix a higher rate if they are able to. But generally it is important to us that those who have regular savings passbooks think in different terms than they have been accustomed to in the past. In 1988, payable-on-demand accounts carried a 21 percent interest rate. The interest rate in effect at that time (on payable-on-demand accounts in 1987 it was 6 percent) was automatically raised 15 percent for all types of savings. And this was a mistake. Such moves do not promote correct thinking or calculating. And this thinking should look like this: You have 100,000 zlotys, put 80,000 into a time deposit account and 20,000 into a payable-on-demand account. Then for the 20,000 you get, let us say, 12 percent, and for the 80,000 you get an interest rate which will make up for, or even exceed, the inflation rate. In total, therefore, this will be more than 21 percent.

[PERSPEKTYWY] Can the NBP president, during the year, change the bottom and top limit of the interest rate on personal deposits?

[Pakula] We will apply a variable interest rate. We have to get the people accustomed to the fact that the interest rate can change from day to day and week to week.

[PERSPEKTYWY] Let us stay with personal savings. Why, for example, do "W" accounts, into which the wealthiest people put their earnings so as to avoid the countervailing tax, held a year or longer, carry an interest rate of 12 percent?

[Pakula] These accounts always had the lowest interest rate because these accounts were settled on a continuing basis. Money can be withdrawn from these accounts at any time, which naturally means that they must be figured into the countervailing tax base.

[PERSPEKTYWY] I think that this answer will not convince the holders of the "W" accounts.

[Pakula] Then I will tell you something else. For almost 100 years we have been a praiseworthy example, because in Poland neither personal deposits nor interest are taxed. In many countries it is the opposite.

[PERSPEKTYWY] On the other hand, a singular exception appears to be the PKO contests, lotteries, which are more fitting to a lottery monopoly than to banks. There were already ironical articles published on this subject...

[Pakula] This may surprise you, but I see nothing unusual in this. In Poland there are too few such kinds of games and lotteries, although there is a great deal of interest in them. PKO, as a people's bank, if it wants to hold on to savings deposits, should arrange money contests from time to time.

[PERSPEKTYWY] In protecting their zlotys assets, people are buying dollar certificates. But generally certificates are bought at a lower price and sold at a higher price at the bank windows than by black-marketeers in the lobbies of these same banks. Where is the logic in this?

[Pakula] Well, it shows the delayed and inflexible reaction of the bank to the buying and selling price of certificates on a given day. If the bank would react, as does the black-marketeer, more quickly, adjust the purchase price and reduce the selling price, the gentlemen with certificates in the lobby would not have anything to do!

[PERSPEKTYWY] The dollar forces out the zloty wherever it can...

[Pakula] The duality of currency in our economy is a fact. This would not be so if the zloty were a fully convertible currency.

[PERSPEKTYWY] How can this be brought about?

[Pakula] This will be possible when everyone buys what he wants for zlotys. Second, when a zloty is convertible in the international system. And this depends on the state of our economy. Many other actions are also connected with this. But I have hopes that in a few years we will bring about this convertibility.

[PERSPEKTYWY] More and more firms are selling for dollars. There are even dollar stalls in the public trade sector. Do you think this is proper?

[Pakula] Until the zloty becomes convertible both within and outside the country, internal export will exist. Otherwise we would cut off the state treasury from the currency held by the people and intended for purchases of the PEWEX type.

[PERSPEKTYWY] Many people took the buying and selling of dollar certificates by the banks as a sign that there will be open buying and selling of foreign currencies.

[Pakula] We have begun action in this direction and this will be sanctioned in the new law on foreign exchange. The draft of this law is in the Sejm. Buying and selling of currency (if it is not done for earnings purposes) between individuals will be permitted. But banks and private exchange offices will conduct bilateral exchange according to the rate in effect on that day.

[PERSPEKTYWY] Will this happen as early as this year?

[Pakula] This year, absolutely this year.

[PERSPEKTYWY] Those who have large amounts of money are being encouraged to engage in economy activity. For the most part, this requires additional bank credit. And the rate of this interest for 2 years is approximately 60 percent. For whom will this be profitable?

[Pakula] A typically Polish way of putting the case. You would like the bank to pay the highest interest on savings and give very cheap, if not free, credit! Such a bank would go out of business!

[PERSPEKTYWY] But what will a new businessman have left after 2 years when he is charged so much?

[Pakula] First: Newly begun economic activity is not subject to taxation for the first 3 years. Second: If inflation averages 55-60 percent a year, then the bank offering a 60-percent credit does not demand anything extraordinary. Naturally, the undertaking of economic activity and utilization of credit must be preceded by a profitability statement. No one needs an inefficient enterprise.

[PERSPEKTYWY] Mr President, few people believe that this year retail prices will rise 20 percent, and with



carryover, 55-60 percent. Even if this 20 percent were calculated according to the rules of statistics, the social perception is different.

[Pakula] It is true that social perceptions are always different than statistical data. They evolve from the personal experience of the family or the individual, dictated by daily expenditures out of the household budget. Statistics, on the other hand, are the resultant average of all of these figures. In which direction a given family "deviates" from the inflation rate in a given year depends on the structure of its expenditures. Let us take, for example, the rise in rents or transportation costs. The share of expenditures for these purposes in the family budget differs.

[PERSPEKTYWY] And the unhampered growth of prices in the private sector?

[Pakula] But the private, nonfarming sector forms a minimal part of the productive forces in our country.

[PERSPEKTYWY] The law on economic activity is supposed to change this.

[Pakula] Certainly something in this field will change. But I believe that over the year this will not have an important effect on household budgets. Furthermore, there is talk that today, for example, there is no monopoly in trade or services. And this is not true. Every, even the smallest tradesman or craftsman who has a small shop, is often now just as much a monopolist as a large enterprise. The situation will change as the number of similar small shops, enterprises, and service and sales centers increases. Because they will come into the market through competition. Naturally, we will not feel this immediately.

[PERSPEKTYWY] Do we see any signs of movement in the new system for granting credit for housing construction?

[Pakula] The new credit rules are an element of state policy in housing construction. The credit carries a low interest rate (for rental housing, 3 percent, for owner-occupied housing, 6 percent). Therefore, I would like to persuade the young people especially, to become interested in this credit, to begin to build their own houses by their own efforts or in small cooperatives, instead of waiting in the long housing queues.

[PERSPEKTYWY] Is this credit subsidized from the state treasury?

[Pakula] It has to be subsidized. The minimum interest rate on the credit this year is 22 percent. Therefore, the state treasury adds 19 or 16 percent to the amount of the credit. This year it will amount to a total of about 800 billion zlotys.

[PERSPEKTYWY] Which brings us to what is probably the most difficult problem. I am referring to this year's

national budget. The deficit may far exceed a trillion zlotys. Subsidies will grow to 4.5 billion zlotys in connection with the slowdown of price growth. In reference to the 1987 program to strengthen the money, authored by the erstwhile NBP president and his team, will the iron-clad rule that the bank should not print additional money to compensate for the shortage, that it should not "loan" money to the treasury, because this is money that has no coverage, be broken?

[Pakula] I agree fully that the bank should not issue empty money. That is why at the meetings of the KERM and the Council of State, and in the Sejm, during the first reading of the draft budget, I criticized the large shortfall in the budget. When the economy is unbalanced, as ours is, such a large budget deficit endangers the money-strengthening policy and makes the situation worse. I presented a proposal to increase budget revenues and reduce costs, so as to severely reduce the deficit. I also suggested that the minister of finance issue treasury certificates to be sold to enterprises and even individuals, in order to take in the money that is already in circulation instead of resorting to credit.

[PERSPEKTYWY] Would this be a kind of loan?

[Pakula] Yes. This would be an interest-bearing loan. I have hopes that my proposals will be heeded.

[PERSPEKTYWY] What do you wish to emphasize, wanting your signature on the banknotes to increase in value?

[Pakula] We are striving for great liberalization in both zlotys and foreign currency turnover. And this is a step in the direction of zlotys convertibility. But the condition of a nation's money is very closely tied to the condition of the economy as a whole.

For it can be said that the money is as good or bad as the economy. If the economy goes forward, if it is more efficient, than Poland will have a better currency, which is my greatest wish as president of NBP.

[PERSPEKTYWY] Thank you for the interview.

#### **Proprietors of First Private Foreign Exchange Office Interviewed**

26000362 Warsaw *POLITYKA* in Polish  
No 8, 25 Feb 89 p 7

[Interview with Jaroslawa and Jerzy Bowszys, joint owners, first East European private foreign exchange office in Gdansk, by Henryk Jezierski: "At the Rate of the Day"; date and place not given]

[Text] [POLITYKA] Currently, the bank pays 3,200 zlotys for certificates, and sells them at 3,400 zlotys, whereas hard-currency "scalpers" raise both of these rates by 50 zlotys. What rate is in effect at your stand at the Gdansk Quay?

[Jaroslawa Bowszys] Our rate is better for both the buyers and the sellers. We pay 3,250 zlotys for a certificate purchased, and when we sell it we only charge 100 zlotys more. Obviously, the principle of setting contract prices on the basis of the rate of the day applies.

[POLITYKA] Does it make sense financially?

[Jerzy Bowszys] It is too early for unambiguous conclusions. We have been operating for only two weeks. Contrary to our expectations, we have not had too many clients. In particular, the socialized enterprises have failed us. Purchasing, say, a set of equipment for receiving satellite TV in Pewex or Baltona [hard-currency shops] is definitely more advantageous than using the brokerage of various companies which, to be sure, sell for zlotys, but use rates of the dollar exceeding those in the free market by as much as two times. We have a right to sell certificates to [enterprise] accounts. Unfortunately, thus far only private individuals have been using us. This gives rise to concern, because we banked on a low profit margin and high volume. Besides, we do not actually know where we stand on things. This is especially the case with tax issues. We will have to wait a couple months until they are ultimately resolved. We count on preliminary assurances, concerning the 5-percent turnover tax, to be confirmed. Otherwise, our proceeds will not suffice for paying other fees and recouping the cost of operations.

[POLITYKA] Apparently, such costs are not too high. As I can see, business is transacted in the back of a store with ladies' garments, and conducting it calls for nothing else but fluency in calculations.

[Jaroslawa Bowszys] You could talk about this with our accountant. A large commercial enterprise could use all the bookkeeping he is obligated to maintain by over 20 legal acts having the status of a law or an executive decree. I have operated the shop you have referred to for 6 years now. So far, I have regarded this shop as insurance in case the hard-currency transaction business does not pan out.

[Jerzy Bowszys] Purchasing and selling certificates is an essential sphere of our business, but not the only one. The exchange office is a part of a greater entity, the full name of which is Production and Commerce Enterprise MAX Inc.

[POLITYKA] What is the composition of the initial clientele of your office?

[Jaroslawa Bowszys] Similar to that of the entire Polish society. We had a client who sold us 1,900 certificates; however, there also was one who just did not have enough zlotys for purchases, and he exchanged one certificate with us. Very many people, especially women, restrict themselves to purchasing five or 10 certificates—exactly the amount they need to buy cosmetics or some other trifle in Pewex. Some are visibly embarrassed by the size of the

transaction. However, our attitude toward clients does not change according to their financial standing.

[Jerzy Bowszys] I may even say that my wife serves the "small" clients most cordially. In general, people talk about the pleasant surprise they experience after entering our office. They say: "Finally we can count our money in a proper environment." The so-called scalpers definitely do not assure such comfort. Some of the clients also stress that they feel safer in our office than they do in the banks. This is what the subconscious fear of being observed and registered does to them.

[POLITYKA] In mid-March, the hard-currency law takes effect which will allow your company to operate in hard currency as well...

[Jerzy Bowszys] We definitely intend to take advantage of this opportunity. The interest of potential clients is considerable. We are asked all the time about when we are going to begin dealing in "real money." However, the mode of settling with the state treasury remains an important unknown. First of all, what share of hard currency will we be obligated to sell to the bank and at what rate? If the official rate, which is almost seven times lower than that in the market, enters into consideration, we will restrict ourselves to transactions with certificates.

[POLITYKA] However, dealing in bills in other colors and with portraits of people different from the ones we see on the NBP [National Bank of Poland] currency requires particular familiarity with the subject matter. After all, there are quite a few counterfeit products in circulation, and consequences of an eventual mistake may impact the future not only of the office, but also of its co-owners. Does the MAX company take such dangers into account?

[Jaroslawa Bowszys] Even now we employ an expert cashier, and I vouch that his qualifications in this matter will not be beaten by the electronic testers imported from the Far East.

[POLITYKA] Are you not afraid of competition?

[Jerzy Bowszys] We receive several phone calls daily with questions concerning our company and promises to follow in our steps soon. We welcome it. Such rivalry will be good both for us and our clients. I see a much greater danger in something else. A change in regulations or a more flexible exchange rate policy for our banks would cause us to have to be content with implementing other points on the list of operations of our company.

[POLITYKA] At any rate, you deserve to be congratulated for your courage right now.

[Jerzy Bowszys] Congratulations will have to wait. As you know, the future of pioneers has not necessarily been what they would have liked it to be.

[POLITYKA] Thank you for the conversation.

## CZECHOSLOVAKIA

### **Pulmonary Diseases Take Heavy Toll**

24000100 Prague LIDOVA DEMOKRACIE in Czech  
6 Mar 89 p 1

[Article: "Everyone Must Contribute"]

[Text] According to Czechoslovak health care statistics, illnesses of the respiratory system are considered the second most serious group of diseases (behind cardiovascular illnesses). This group, in fact, occupies first place among the causes of lost work time, and causes losses in the tens of billions of korunas annually to the national income. To this must be added the fact that each year in the Czech Socialist Republic [CSR] alone more than 5,000 men and about 7,000 women die of lung cancer.

The strategy of the struggle against respiratory tract illnesses has the goal of limiting these illnesses, minimizing cases requiring essential institutional treatment, reducing the amount of work time lost due to these illnesses, and minimizing cases of invalidization and mortality caused by these diseases. The formulation of this strategy should not be a matter solely for health care professionals, but should involve effective cooperation with the general public.

Regarding the most serious of these illnesses, lung cancer, beginning in 1987 throughout the CSR a program of mandatory infirmary visits was introduced for individuals between 45 and 65 years old who have been smoking 20 cigarettes or more daily for at least 20 years, and for all employees exposed during their jobs to ionizing radiation or so-called inhalational carcinogens. All affected people are scheduled once every year or two for a complete pneumological checkup, part of which is a lung x-ray. Doctors predict that this program will enable them to catch at least some of the lung tumors in an asymptomatic stage when effective treatment is still possible.

Identifying and performing checkups on all people at risk for lung cancer because of their job responsibilities is not a large problem for the health care system because factory physicians, who have an intimate knowledge of their workplaces, can provide assistance. Heavy smokers, however, are still not comfortable with the idea that seeing a doctor for a checkup is in their best interest. Many are afraid of receiving an unfavorable diagnosis but do not realize that the sooner they begin treatment, the longer they will live in the end.

In all regions of the CSR organizational measures have been taken so that the diagnosis and treatment of lung cancer is concentrated in selected hospital wards. Immediate admission of ill individuals has also been arranged at qualified surgical sites. The assumption is that establishing a diagnosis should never take more than two weeks. Now the task is to provide incentives to those at

risk to have checkups and to accept treatment, to convince them not to be afraid to visit their district or factory physician just because they are a heavy smoker. Most importantly people must be convinced to make this visit in time, while they are still showing no symptoms.

A system for caring for those with bronchial asthma and chronic bronchitis has also been developed on a similarly comprehensive foundation. In view of the large numbers of people with these illnesses, the effectiveness of this system depends mainly on achieving a radical reduction in harmful industrial emissions, as well as on success in the battle against smoking, and on progress in developing vaccines and new treatment techniques.

Acute illnesses of the upper respiratory tract have so far not been included in either of the above strategies, even though these illnesses are the greatest cause of time lost from work. Success in controlling them depends on a number of factors, mostly of a preventive character. These include physical vitality and resistance, nutrition, housing, and the work environment. It reflects, in other words, public health programs having their basis mainly in the social sphere. This, then, is precisely the area where the general public has a large role to play. Questions of proper nutrition, improving resistance and physical vitality, after all, have an impact on us all.

## POLAND

### **Research Shows Growing Use of Marijuana, Hallucinogenic Mushrooms**

53003001 Warsaw ZDROWIE in Polish  
No 12, Dec 88 pp 2-3

[Article by Magdalena Szenk: "Science Helping to Prevent Drug Addiction"]

[Text] As perceived by society, alcoholism and drug addiction are causing the most damage to health and society at present. This is borne out by, among other things, the results of research undertaken in 1986 within the framework of the Central Research and Development Program, "Prevention of the Consequences of Alcoholism and Drug Addiction."

This program, which also focuses on the consequences and environment for these manifestations, is an interdisciplinary one. After all, the complexity of such problems transcends the potential of medical science. Scientists from the Institutes of Psychiatry and Neurology (main contractor), AM [Medical Academy] in Warsaw, Krakow, Bialystok, Gdansk, WAM [Military Medical Academy] in Lodz, the Szczecin and Silesian Universities, and many other institutes and research facilities are taking part in research on drug addiction.

The implementation of the first stage of the program was discussed at a meeting of the Commission of the Minister of Health and Social Welfare for Preventing Drug Addiction which was held on 11 October. It was chaired



by the Undersecretary of State [in the Central Planning Office] Stanislaw Gura. Research work carried out in 1986 and 1987 provided data of an epidemiologic, social, and biomedical nature, as well as data on counteraction and treatment. This year, a new research topic was added to the program which involves developing hemp with a low content of hallucinogens.

Speakers in the discussion expressed the opinion that there are too few topics in the program which involve drug addiction, and that more scientists who are psychologists and sociologists should take interest in this phenomenon. Among others, Dr Ewa Andrzejewska, chairperson of the Association for Preventing Drug Addiction, stressed that official statistical data is still imprecise. This is borne out by, among others, the case of one of the rehabilitation groups sponsored by the "Kuznia" Association which includes 40 persons only three of whom have been officially registered.

According to epidemiological data, about 4 to 6 percent of school-age young people have had experience with marijuana and volatile substances. An increase in the number of the youngest ones who intoxicate themselves primarily with the so-called inhaled substances gives rise to concern. Persons with opiate dependency continue to account for the major group (80 percent), despite restrictions on poppy planting. Marijuana and dangerous hallucinogenic mushrooms are used with increasing frequency. Surveys in the Lodz community among 100 persons who used drugs 10 to 12 years ago have shown that more than one-half of them no longer use drugs. The family environment was the main factor in the successful outcome of resocialization. It also turns out that persons taking drugs for less than 5 years have a better chance of kicking the habit.

It was suggested that research on the biological consequences of drug dependency be increased, and that it be expanded to children of the drug addicts. Prof Dr Tadeusz Chrusciel from the Medical Center for Post-Diploma Training addressed the inadequacy of psychiatric clinical evaluations and the need for identifying addictive substances in body fluids which this entails. He also discussed the results of a research project on the properties, planting, and use of poppy plants, of which there are 45 genera and 750 species. Among other things, the project suggests that poppy planting may continue, provided that the kind with high morphine content needed for pharmaceutical purposes is only grown under strict control. In turn, the variety of poppy with low morphine content may be grown for food purposes. The "compote," so-called Polish heroin, cannot be obtained from this variety through household means.

Preventing drug addiction in Gdansk Province was also discussed at the meeting. Local special psychiatric control estimates that about 4,000 persons are dependent on intoxicating substances and psychotropic drugs in the province. In its turn, the MONAR [Young People's Movement to Combat Drug Addiction] reports that about 20,000 young people have succumbed to drug addiction there. In analyzing the dynamics of this phenomenon, it was stated that the number of people threatened with drug addiction has now stabilized following a period of rapid growth in the years 1984 through 1986, and the trend appears to be downward.

Information was also offered about preparations for the European Forum for Preventing and Treating Drug Addiction which is being organized by the Association for Preventing Drug Addiction, and will be held in September 1989.



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